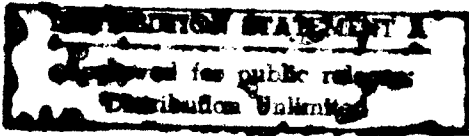


# ***JPRS Report***



# **China**

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17 OCTOBER 1989

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## GENERAL

### New Political Order for Asian-Pacific Region Envisaged

40050649 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 11, 8 Jun 89 pp 3-7

[Article by Chen Qimao 7115 0796 2021: "Changing Asian-Pacific Patterns—Preliminary Exploration of the Establishment of a New International Political Order in the Asian-Pacific Region"]

[Text] When forecasting trends in the Asian-Pacific political system for the 21st century, some people think that there are four possibilities: an improved model of U.S. dominance, a model of U.S.-Japanese joint dominance, a model of joint dominance by the principal countries in the region, and a model of Japanese dominance. To establish a new international political order in the Asian-Pacific region entails establishment of a brand-new system, without bipolar domination by the United States and the Soviet Union, and is neither dominated by any one great nation nor jointly by the United States and Japan, but is one in which equal, harmonious, and multipolar new types of international relationships are formed. In fact, in the Asian-Pacific region, there have appeared several mutually influencing and mutually restricting power centers—the United States, the Soviet Union, Japan, China, and ASEAN—and a multipolar pattern has basically taken shape. The situation in which one or two great nations issued orders in the Asian-Pacific region and did what it or they wanted to do has gone, never to return.

### Preliminary Exploration of the Establishment of a New International Political Order

In the most recent period, Chinese leader Deng Xiaoping, when talking with foreign guests, many times put forward a proposal for establishment of a new political order. Deng Xiaoping pointed out that in the current international situation there has appeared a new situation in which confrontation has changed to dialogue and tension has changed to relaxation; in this trend of developments we should raise the question of establishing a new international political order. Deng Xiaoping stressed that the five principles of peaceful coexistence should become the universal principles guiding relations between one country and another. He suggested that people studying international strategy consider whether a new political order in international society could be based on the five principles of peaceful coexistence.

Once this important proposal was made, it drew a high degree of attention in international society. However, on the other hand, because this is a new question and it has been raised for only a very short time, it awaits further exploration, study, and elucidation. Below are several tentative ideas of mine:

1. The new international political order is to be established on the basis of the five principles of peaceful coexistence, and the new international relations are to be characterized by equality, without exception, between large and small countries, mutual respect for independence and sovereignty, and peaceful solution of international disputes. These new international relations will be different from the dog-eat-dog international relations before World War II, in which certain powers carved up the world, bullied and humiliated small and weak nations, and contended with each other; it will also be different from the bloc politics in the initial stage after World War II, in which two big camps were in sharp confrontation; and will be diametrically opposite to the power politics, in which for a considerable period of time the two superpowers, in pursuit of hegemonism, engaged in global contention.

2. The establishment of a new international political order is an objective demand of postwar historical developments. In the development of the international situation up to today, there have been major changes in the bipolar pattern formed under the Cold War structure: The two superpowers have been relatively weakened; the role of some regional political and economic organizations in Western Europe, Japan, Asia, Africa, and Latin America in international affairs is growing day by day, and a multipolar structure is now being formed; hegemonism is being rebuffed everywhere; the U.S. defeat in its war of aggression against Vietnam and the Soviet Union's defeat in its war of aggression against Afghanistan show that the use of military means to resolve international conflicts is becoming more and more unworkable; and although the arms race continues to this day, the competition in total national strength, with science and technology and the economy made primary, has already become the principal form of international confrontation. To enhance their total military strength and improve their own country's economic position, the two superpowers also need relaxation. Thus, transitional changes have occurred in the global structure, and the world has entered a stage of relative relaxation, which will last for a fairly long period of time. The old era, in which one or two great nations controlled the world's destiny, has already passed, and it is also difficult for bloc politics to continue. Under these circumstances, it is logical to propose the establishment of a new international political order.

3. Establishing a new international political order conforms with the trend of the contemporary era. There are two major questions in the contemporary world: One is the question of peace and the other is the question of development. The former is the question of how to prevent a nuclear catastrophe so that human civilization will be unlikely to be destroyed by the science and technology that it created. The latter is the question of how to make human society as a whole, on its existing foundation, further develop and achieve common prosperity and wealth. Not only is there the question for the great number of developing countries of how to develop

their economies and transform their poor and backward appearance; for the developed countries there is also the question of redevelopment on the existing foundation so as not to fall into stagnation and recession. Peace and development have become the common interests of the world's people, and they will become the main current in the future era. Only by establishing a new international political order on the basis of the five principles of peaceful coexistence can harmonious political relations between country and country and between continent and continent be established, can protracted world peace be maintained, and can an international environment advantageous to economic development be created.

4. The establishment of a new international political order and a new international economic order would complement and support each other. Fifteen years have already passed since the special session of the Sixth UN General Assembly in 1974 passed the declaration and action program to establish a new international economic order. During this time, although some enlightened people in the great number of developing countries worked hard, there was little progress. Not only have North-South contradictions not been alleviated, they have been exacerbated. In the Third World, except for a small number of countries and regions in which economic development is fairly fast and which are now approaching and overtaking the developed countries, the gap between the greater part of the countries and the developed countries is widening, and some countries have fallen into serious debt crises and into hunger and famine. Obviously this situation is highly detrimental to world peace and stability, and a new international political order and a new international economic order must be established simultaneously. Because of the unbalanced nature of world economic development, which has existed for a long time in history, to truly establish a fair, rational, equal, and mutually beneficial new international economic order is more difficult than to establish a new international political order. The establishment of a new international political order will help the many developing countries to develop and expand their own economies, will gradually change the unequal international economic relations, and will bring about establishment of a new international economic order. Only by establishing a new international economic order will the new international political order be able to be truly consolidated and to be perfected and developed.

5. To establish a new international political order, international society must strive further to put an end to hegemonism and bloc politics. Although there have been distinct improvements in the current international situation, this certainly does not mean that hegemonism will actually withdraw from the stage of history; bloc politics, which is a historical phenomenon, also will not easily vanish within a short period of time. In fact, the contention between the United States and the Soviet Union has not stopped. Although the arms race and regional conflicts have cooled down, they still exist. Colonial oppression, racial discrimination, terrorist activities, and other

unstable factors still exist. In fact, only if all countries and people who love peace unremittently oppose hegemonism, including superpower hegemonism and regional hegemonism, oppose colonialism, oppose racial discrimination, and oppose power politics can a new international political order be gradually established.

#### **Establishing a New Political Order Is a Pressing Task for the Asian-Pacific Region**

Over the past more than 20 years the economy of the Asian-Pacific region has developed vigorously, and its growth rate has been markedly higher than that of other regions in the world. According to a 1985 World Bank report, the economic growth rate of the Asian-Pacific region in the 1960-73 period was 6.3 percent, in the 1974-80 period it was 6.2 percent, and in the 1980-84 period it was 5.9 percent, far higher than the growth rates of the industrially developed countries for the corresponding periods, which were 4.6 percent, 2.8 percent, and 2.1 percent. In the past 2 years the economy of the Asian-Pacific region has continued to enjoy outstanding successes. In 1987 the growth rate reached 8.02 percent, nearly 5 percentage points higher than the world average of 3.2 percent. In 1988, according to World Bank figures, the average economic growth rate of 90 countries and regions in the world was 5.2 percent, while the average Asian-Pacific economic growth rate was 8.8 percent, among which: China's economy grew 11 percent, India's 8 percent, and Japan's 5.1 percent; the average growth of the "five little dragons" [Hong Kong, Taiwan, South Korea, and Singapore] was 8.3 percent. According to forecasts from various quarters, this momentum of economic development in the Asian-Pacific region will be maintained. It is estimated that by the end of the century the Asian-Pacific economy's proportion in the world economy will be 4 to 5 percentage points higher still, exceeding that of Western Europe and equaling that of the United States. Because the Asian-Pacific region's share of the world economy is becoming larger and larger, it has become the most active region for rivalry in world diplomacy and economy, and its position in the world strategic situation is becoming more important day by day.

However, on the other hand we must see that this excellent economic situation of vigorous development is relative, and that the politics of the Asian-Pacific region is still contradictory and intricate, with many disputes. If a comparison is made of the Asian-Pacific region and Europe, it can be seen that the Asian-Pacific region is not as politically stable as Europe: 1) The Asian-Pacific region is the strategic region second to Europe in which massive U.S. and Soviet forces confront each other. However, up to now, disarmament talks have concentrated mainly on Europe, and the U.S.-Soviet arms race in the Asian-Pacific region not only continues, but also, because of the present situation in military technology, both sides are paying more attention to naval strategic forces. Therefore, there seems to be a tendency toward escalation in the Asian-Pacific sea area. 2) In Europe, the nations of Western Europe have already achieved a great

deal of unity, and in this unity there is also a tendency toward continued enhancement and expansion. In Eastern Europe there is the CEMA organization, and although between some countries in Eastern Europe there exist some contradictions in the aspect of territorial division, these contradictions are now not prominent. In the Asian-Pacific region there are many territorial and nationality disputes and various contradictions converge and crisscross. Thus, after World War II regional conflicts and local wars have occurred constantly. When some contradictions are resolved, others form or break out. In particular, in recent years differences over ocean rights and interests have become more prominent day by day, and thus could become a hot point for new conflicts. 3) Unlike Europe, many countries in the Asian-Pacific region are politically in a transition period of changing from the old system to the new system. Up to now, although the process of the democratization movement in the Asian-Pacific region may still be said to be smooth, the possible appearance of certain contradictions, reversals, and turmoil cannot be excluded (for example, the situation in Burma). 4) Compared to Europe, the Asian-Pacific region has not set up measures for dialogue and trust and other security mechanisms for restricting conflicts and handling sudden incidents. This situation is very incongruous with the outstanding successes in Asian-Pacific economic development, and is also very unsuited to the demand for sustained, stable economic growth in this region. How to get a tight grip on the advantageous opportunities provided by the marked improvement in the current international situation, strive to restrict and gradually eliminate these unstable factors, and establish in the Asian-Pacific region a new political order based on the five principles of peaceful coexistence, and provide an international environment advantageous for the sustained, stable development of the Asian-Pacific economy—this is a major, pressing task facing the relevant Asian-Pacific countries and people.

When forecasting where the Asian-Pacific system will move in the 21st century, some Japanese experts think that there are four possibilities: the improved U.S. dominance model, the U.S.-Japan joint dominance model, the main countries' joint dominance model, and the Japanese dominance model. To establish a new international political order in the Asian-Pacific region requires establishment of a brand-new system, namely, neither a bipolar dominance by any one great nation (no matter whether the United States or Japan) or a U.S.-Japan joint dominance, but rather the formation of new-type international relations that are equal, harmonious, and multipolar. In fact, in the Asian-Pacific region there have appeared several mutually influencing and conditioning power centers, namely, the United States, the Soviet Union, Japan, China, and ASEAN. A multipolar structure has been basically formed, and the situation in which one or two great nations issued orders and did as it or they wanted disappeared long ago, never to return. This situation is advantageous for the Asian-Pacific

region being the first in which a new international political order is established.

#### **On Several Problems That Must Be Solved in Establishing a New Political Order in the Asian-Pacific Region**

1. The problem of disarmament and security mechanisms in the Asian-Pacific region. The U.S. and Soviet massive troop confrontation and arms race in the Asian-Pacific region, as well as their contention for strategic sea passages, are still the greatest factors for instability in the Asian-Pacific region. To safeguard the long-term peace and stability of the Asian-Pacific region, the U.S.-Soviet arms control talks should not be limited to the European region, but should aim to stop the arms race at the same time in the Asian-Pacific region, stop deployment in this region of new military forces, and stop testing and improving weapons in this region, and they should reach agreement and act to greatly reduce each one's nuclear weapons and conventional forces in this region, so that the state of their massive confrontation of military forces in the Asian-Pacific region is relaxed. Since 1985 China has cut 1 million troops, making a contribution to leading the relaxation of the Asian-Pacific situation. In the INF Treaty, the Soviet Union promised to destroy the SS-20 intermediate-range missiles in its eastern, and has decided to cut 200,000 troops in the east. All of this is worthy of welcome. At Krasnoyarsk Gorbachev made seven proposals for strengthening Asian security. Juxtaposing China with the United States and the Soviet Union as great nations, he asked that China, together with the United States and the Soviet Union, freeze nuclear weapons and that China, as well as some other countries, together with the United States and the Soviet Union, freeze and then make balanced cuts in their naval and air forces. This is no different than wanting a heavyweight boxer and a child to lay down their weapons at the same time, and is obviously irrational and unfair. As for the proposal that a mechanism be set up for Asian-Pacific region talks, this in reality is an attempt to set up an Asian-Pacific security system on the model of the European Security Council. This position does not conform to the reality of Asian-Pacific security and will be difficult for the Asian-Pacific countries to accept. This is because the Asian-Pacific situation is far more complex than the European situation. The threat to Europe's security stems mainly from the opposition between large military blocs, which include most of the countries of Eastern and Western Europe, but the threat to Asian-Pacific security, of course, is the military confrontation between the United States and the Soviet Union. There are disputes and conflicts in many areas, and obviously it would be difficult to resolve them through one unified mechanism for negotiations. The great majority of Asian-Pacific countries are unwilling to accept a situation in which any one great nation manipulates Asian-Pacific affairs. What would be fairly realistic would be for the United States and the Soviet Union to first hold talks to lower the level of military confrontation in the Asian-Pacific region. The relevant Asian-Pacific countries would then hold talks on the disputes

over territorial and sea rights and interests between themselves, and set up certain mechanisms for dialogue, and then wait until conditions in the future were ripe, when there would be study and exploration for the establishment of an Asian-Pacific security system of a certain form.

2. The problem of striving to eliminate existing regional conflicts and prevent the outbreak of new conflicts. A political solution to the Cambodian problem is a trend of the times, and the relevant countries should make joint efforts to promote its achievement at an early date. First of all, great pressure should now be exerted on Vietnam to compel it to keep its promise to withdraw all its troops before the end of September. To prevent the Vietnamese Army from staying in Cambodia by changing uniforms, the troop withdrawal must be carried out under strict international supervision. At the same time, to prevent a repeat performance in Cambodia of the Afghanistan situation, the Cambodian problem must be considered in both its international and domestic aspects. A fairly realistic way would be to establish a quadripartite government headed by Prince Sihanouk, freeze the armed forces of each party at a certain number, and stipulate that the armed forces must not take part in politics and must not interfere in the general election, letting the Cambodian people, without external interference and threat of military force, hold a free election, so that Cambodia truly becomes a peaceful, independent, non-aligned country. On the Korean Peninsula there exists a tense situation of military confrontation between North and South. Relaxing the Korean Peninsula situation is a pressing task for safeguarding Asian-Pacific peace and stability. North Korea and South Korea are now relaxing their tense relations and conducting a dialogue to achieve national reconciliation. The relevant countries should support this dialogue and create conditions that insure its progress. The U.S. armed forces should gradually withdraw from South Korea. As a first step they should stop the large-scale military exercises they jointly hold with South Korea, in order to create a loose and comfortable atmosphere for North-South dialogue. China has developed with the southern part of Korea nongovernmental economic and trade relations as well as tourism. From the viewpoint of the relaxation of the Korean Peninsula situation, contacts between the United States and Japan on the one hand and the northern part of Korea on the other are necessary and beneficial. Among the Asian-Pacific countries there exist problems left over from history, and the disputes over territory and sea rights and interests should be resolved peacefully. Some problems that cannot be solved for a time may be shelved temporarily, and be solved when conditions are ripe. With regard to some problems, the status quo may be maintained, and then be tackled in common. We must resolutely oppose the hegemonistic actions that, with armed force, violate the territory and sovereignty of other countries.

3. The problem of correctly handling relations between great nations and national blocs in the region and

establishing a pattern of relations between countries that is advantageous for safeguarding sustained peace and stability in it. Following the abrupt economic and political rise of Japan, the strategic triangular relationship in the Asian-Pacific region evolved into a quadrangular relationship among the United States, the Soviet Union, China, and Japan. At the same time, the political strategy and economic position of ASEAN in this region are improving daily, and its right to speak about Asian-Pacific affairs is growing daily. The correct handling of this "four-angled, five-sided" relationship is of critical significance for the peace and stability of the Asian-Pacific region and for establishment of a new political order in it. The relevant countries should, on the basis of the five principles of peaceful coexistence, improve relations, cooperate, and jointly make contributions to the situation in the region and to the establishment of a new political order. In particular, the Soviet Union and the United States should take the initiative to remove obstacles, so that Sino-Soviet, Sino-U.S., and Japan-U.S. relations develop healthily. China hopes that Sino-U.S. relations will develop in a sustained, stable manner on the basis of the 1972 Shanghai communique, the 1978 communique on establishing diplomatic relations, and the 17 August 1982 communique. The main obstacle and the latent danger to further development of Sino-U.S. relations is still the Taiwan issue. Following development of the situation, Sino-U.S. relations will have to pass a new test on this issue. China is now working hard to develop the "three exchanges" (exchange through trade, exchange of mail, and exchange of air and shipping services) between the two shores of the strait, further improving relations between the two shores, and striving to use the "one country, two systems" pattern for the peaceful solution of the reunification problem, in the hope that the United States will, in all of this, play a positive role and not a negative, obstructive role. Sino-Soviet relations will, on the basis of further eliminating the three major obstacles, become normalized, and on this basis China will establish new-type relations with the Soviet Union, which will not be the same as the confrontation of the sixties and seventies in which neither side would budge, and also will not be a return to the alliance of the early fifties, but will be a striving for establishment of equal and friendly good-neighbor relations. Sino-Japanese friendship suits the fundamental interests of the peoples of the two countries, and is also an important mainstay for Asian-Pacific peace and stability. China will continue to develop friendly relations with Japan. Between China and Japan, the objective existence of certain contradictions need not be evaded, but it is hoped that they can be correctly handled, so that in Sino-Japanese relations undulations and fluctuations can be reduced and relations can develop in relative peace and stability, which will be advantageous for the stability of the Asian-Pacific region. China also sincerely hopes that U.S.-Soviet relations can be further relaxed, and that Japanese-Soviet relations will improve. China is now striving to normalize state relations with Indonesia, and will go on to establish diplomatic relations with Singapore and Brunei. China supports ASEAN's efforts

to safeguard the security of the Southeast Asian region and to develop the region's economy. China and ASEAN will develop their relations on the basis of the five principles of peaceful coexistence.

4. The problem of appropriate handling of the relationship between the achievement of democratization and the safeguarding of political stability. In recent years in certain countries in Asia there has been distinct progress in the democratization movement. After the toppling of the Marcos regime in the Philippines in February 1986, democratization also made important progress in South Korea. The peaceful and stable replacement of the regime in Pakistan through a general election was an important victory for the democratization movement in Asia. Burma, which had been closed to international intercourse for a long time and had been a military autocracy, has also been drawn into the tide of democratization. The democracy movement is on the ascendant. The task facing many Asian-Pacific developing countries (areas) is how to appropriately handle the relationship between achieving democratization and safeguarding political stability. From a look at the present situation, we see that, because the economies of the great majority of countries and areas are in a period of escalation, people's lives have improved to a considerable degree, all quarters of society demand democracy but do not want turmoil, and the ruling authorities have accumulated experiences. Therefore, only if it is handled appropriately can this reform of the political system be achieved peacefully through evolution and not develop into violent revolution or large-scale turmoil. All the democratic changes that the relevant countries in the Asian-Pacific region make, in line with the people's wishes, to suit the people's interests, economic development, and social progress, and that are beneficial to peace and stability, should be supported. As for the pattern, form, and steps of the reform, they are the internal affair of each country. No country should flagrantly intervene or take advantage of reform to infiltrate and expand its own influence. In view of the fact that the United States for a long time has been drawn into the internal affairs of some Asian-Pacific developing countries, the U.S. attitude is particularly noteworthy. In the democratization movement in those countries where the United States has been deeply involved, it should respect the will of the local people and try to play a positive, promotional role and not a negative, obstructive one. Some Americans are used to gesticulating and issuing orders with regard to the internal affairs of small and medium-sized countries, always trying, in accordance with the U.S. position and based on U.S. interests, to control the direction and course of democratic movements. This is extremely harmful. The result is often not only detrimental to Asian-Pacific stability and to establishment of a new political order there, but also causes an upsurge in the anti-U.S. tide, which is detrimental to the United States itself.

5. The problem of promoting the continued development of the economy and the prosperity of the Asian-Pacific region while maintaining the region's peace and

stability. The political stability of the Asian-Pacific region is closely linked to its economic development and prosperity. An environment of peace and stability is an important condition for Asian-Pacific economic development and prosperity, which is also advantageous for establishment of a new Asian-Pacific political order. Overall, economic development of the Asian-Pacific region looks fairly healthy and smooth, but one cannot but see that in recent years there have appeared in the economic development various imbalances. For example, the intensification of Japanese-U.S. trade friction and the trade friction between the "four little dragons" of Asia, with the subsequent threat of protectionism; the polarization of the developing countries and areas in the Asian-Pacific region, with the gap between some poor countries on the one hand and the developed countries and newly industrializing countries (areas) widening; the changes in the flow of international funds that have occurred in recent years (a large amount of funds flow to North America, Macao, and Singapore); and so on and so forth. If these imbalances are allowed to develop and are not controlled, Asian-Pacific economic development will be hindered and the political stability of the region will be adversely affected. The relevant Asian-Pacific countries should make common efforts to mitigate the imbalances in order to create conditions for the economies of all countries in the region to continue to develop and prosper. Herein the United States and Japan bear particularly major responsibility. In the process of readjusting the economy and of reducing the two big deficits—in finance and in trade—whether the United States can adopt safe measures, so that the deficits fall gradually and the situation of taking in a large amount of funds is changed without causing a serious economic depression and at the same time trade protectionism is checked and open markets maintained, all of this has an extremely great bearing on the sustained growth of the Asian-Pacific region. As an economic superpower, Japan should bear the most responsibility for better readjusting its own strategy for development, continue to open markets, and strive to eliminate trade imbalances. It should also take more enlightened measures in technology transfer and direct investment, and take bigger strides in development aid. Of course, the developing countries in the region also should, in line with the changed situation, readjust their strategies for development, change their industrial structures, develop South-South cooperation, and strive to overcome difficulties, so that their economies develop healthily. To overcome the economic imbalances and bring about a sustained development of the Asian-Pacific economy, it is necessary for the relevant Asian-Pacific countries to enhance the coordination of their overall policies in trade, investment, and industrial readjustment. The Pacific Economic Cooperation Conference should strengthen and explore forms of coordination and consultation between governments.

6. The problem of Japan's path of development and its role in the Asian-Pacific region. With the rapid growth of



Japan's economy, after becoming the world's number-one creditor nation and a major investor nation, the questions of how it will protect its overseas interests and whether it will take the old path of imperialistic, hegemonistic, and rapid expansion of military forces, have an extremely large bearing on the peace and stability of the Asian-Pacific region as well as of the world. Japan has the potential to develop into a military power within a short period of time and also has a long history of foreign aggression. Japan's feelings of ultranationalism and the activities of its rightwing forces also must not be ignored. The people of the Asian-Pacific countries have naturally expressed deep concern about this. Of course, at present Japan has not changed the Yoshida line of emphasizing the economy and deemphasizing arms. From a look at data from various quarters, we see that Japan's strategy for ensuring its comprehensive security is mainly a plan to depend on its superior economic and technological strength in concert with diplomatic measures and a moderate growth in military strength to safeguard its overseas interests, because in this way for Japan there is fairly little risk and fairly low cost. In the foreseeable future Japan will not lightly change this policy, but it is still necessary to maintain an appropriate degree of vigilance against the danger of a revival of Japanese militarism. Japan, as an independent sovereign country, needs a certain amount of national defense forces and this is understandable, but the development of these forces should not go beyond the scope of defensive purposes. Trade imbalances are products of imbalances in economic development. The method of exerting pressure on Japan to make it increase its military expenditures and buy more weapons in order to solve the problem of the trade imbalance would be detrimental to the peace and stability of the Asian-Pacific region, and thus would be highly unwise. Politically, Japan hopes to become a great international power, and people have expressed understanding of this hope. In fact, Japan has already become a great political power with an important right to speak on international affairs. But some people in Japan are striving to establish a Japanese-U.S. joint dominance system in the Asian-Pacific region. This would run counter to the demand for establishment of a new international political order. The reality of the multipolar pattern formed in the Asian-Pacific region, as well as the trend for the Asian-Pacific people to insist on acting independently and on their own initiative and to develop national economies, are also incompatible with it. It would be wisest for Japan to use its economic strength to make contributions to further develop the Asian-Pacific economy as well as the world economy, and in the course of this new development of the world economy further seek self-development. People note that the Japanese government recently raised its official development aid for the 5-year period 1988-92 to \$50 billion, which means that the average annual aid could reach \$10 billion. This is worthy of being welcomed. However, up to now, Japan's development aid (in 1987 it was 0.31 percent of its GNP) is still far lower than the index (0.7 percent) set by the United Nations. If Japan could make an effort to make greater contributions to the

development of the Asian-Pacific and world economies, Japan's economy could achieve greater development and its interests overseas would certainly get the protection and respect of the relevant countries.

China pursues a peaceful foreign policy of acting independently with the initiative in its own hands. The basic points of this policy are opposition to hegemonism, safeguarding world peace, and the struggle to establish a peaceful international environment. As an Asian-Pacific country, China is particularly concerned with the peace and development of the Asian-Pacific region, and this is highly natural. Under the circumstances in which abrupt changes occur in the international situation, China will seize the opportunity to cooperate with the surrounding countries in jointly working hard for the establishment of new political and economic orders in the Asian-Pacific region.

### Outlook for Economic Cooperation in Asia

40050648 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 11, 8 Jun 89 pp 21-24

[Article by Guo Zhaolie 6753 3564 3525]

### [Text] Concept of a Collectivized Economic Bloc Not Suited to the Asian-Pacific Region

Japan is a great economic power in the Asian-Pacific region. When Western Europe and North America drew up their regional economic collectives, Japan was the only one among the seven developed nations that was left out. As a result, because Japan did not want to be isolated, officials and others in Japan began again to explore ways to deal with this situation. Proposals and suggestions began pouring in. However, proposals and suggestions do not equate actual policies and directions, and we should not be dazzled and confused by an endless stream of ideas and plans. What is important is to be cool and objective, to study the special characteristics in the Asian-Pacific region and actual conditions there to finally come to a necessary conclusion.

1. We must first pay attention to the acknowledged economic vitality of the Asian-Pacific region. This vitality is a very outstanding feature that makes this region different from Western Europe and North America. The rate of economic growth in the Asian-Pacific region is much greater than that anywhere else in the world, although, at some time this growth may slow down some. Even so, it is still faster than that in other regions. Moreover, this trend is continuing. We must fully recognize that such outstanding vitality is developed from economic cooperation in a free, open, and nonexclusive region.

2. Next, we must not overlook the diversity existent in the Asian-Pacific region. This is another noticeable feature that distinguishes it from the other regions. It goes without saying that nothing in this world is completely alike, but the diversity of this region is also greater than

that in Europe and America. Differences in race, language, religion, history, culture, political system, and economic development are quite great. Obviously, if such a diverse area were to be slipped over a certain framework, it would not work. If one country were to control another country politically or plunder another economically, that would be against international law. What is needed now is establishment of an international political order and an international economical order that are fair and equal. The diversity of this region must be recognized and respected, not overlooked and ignored.

3. Since the purpose of economical cooperation in the Asian-Pacific region is pursuit of mutual development and prosperity, then any action, whether inside or outside the region, cannot be closed, exclusive, or protectionist, but must be free and open. Frequently, protectionism is practiced by one prosperous nation against another prosperous nation. Actually, there is no difference, for such action will be disastrous to the interests of developing nations. Basically, it is sacrificing the interests of developing nations. The form and extent of regional economic cooperation vary, but this cooperation must not be selfish and exclusive following the evil approach of collectivization. Interpreted along these lines, an editorial carried in NIHON KEIZAI SHIMBUN, 23 November 1988, "The Effect of an Isolated Japan," should be evaluated. This editorial does not think Japan is isolated in this wave of global economic blocs, but thinks a great economic power like Japan should not help it by adding oil to the fire, but do something else instead to prevent the effects of global economic collectivization.

4. Politically speaking, the reaction of large masses of people in the Asian-Pacific region toward hegemonism should be noted and respected. Before World War II, the region was divided up among the great powers, so the people here are still cautious about any great power asserting authority. This point also makes the Asian-Pacific region different from Western Europe and North America. Take Japan, for instance. Various countries in the Asian-Pacific region do not easily forget the "East Asian Coprosperity Sphere" it had advocated earlier. Japan knows this and feels that any bloc or sphere it organizes is detrimental to Japan, so is taking a very cautious attitude. On 31 October 1988, Japanese Prime Minister Takeshita [Zhu Xiadeng 4554 0007 4098] told the visiting finance minister from the German Federal Republic that the Asian-Pacific region, with many developing countries in its midst, has a large population, and while it is possible to have good cooperation between countries, this region cannot become an economic bloc. To further clarify the meaning of the prime minister's words, the Japanese Foreign Office explained that the prime minister felt that having legislators from the region exchange views frequently is better than establishing an economic bloc on the government level in the region.

5. If the Asian-Pacific region really wants to establish an economic sphere of its own, who will lead and direct it is a very sensitive and complex problem. How will several other economic spheres on the fringe of the Pacific respond to this? It can be conjectured that there will be some contention between the United States and Japan, both below and above the surface. It is also unlikely that the Soviet Union, which has been paying increasingly more attention to the Asian-Pacific region, will remain detached. Other nations are bound to have some opinion. A declaration by ASEAN on "peace, freedom, and neutrality" for Southeast Asia has to emphasize cooperation of the Six (the six countries of ASEAN) and the Five (the five developed countries bordering the Pacific), without mentioning the reason for cooperation among the 11 nations, because ASEAN does not want to relinquish its leadership role.

6. The reality of two different social systems coexisting in the Asian-Pacific region must be noted. The premise that nations with differences in their economic system, political system, and understanding can come together to find a common purpose to develop economic cooperation within certain limits and degrees for their mutual interests in an equitable and beneficial way, is entirely possible. The easy way of placing everything into one economic framework is not realistic. We must not overlook here the Cold War structure that existed in the Asian-Pacific region after World War II. In accordance with the needs of the Cold War, neither the United States nor Japan, which followed the lead of the United States in the past, wanted to allow socialist countries to participate in any anticommunist economic framework of historical significance. The purpose of the pro-U.S. "East Asian Economic Sphere" based on "economic independence" that appeared in the 1960's is like this. Although the present international situation has experienced great change, elements of the economic bloc mentality are still heard to exclude this or that country. Apart from some economic considerations, we do not think there is any political bias.

In sum, I think the concept of a collectivized economic bloc is not suited to actual conditions prevailing in the Asian-Pacific region, and from the standpoint of healthy development of the global economy, not a course to be pursued.

#### **Outlook for Economic Cooperation in the Asian-Pacific Region**

1. Regional economic cooperation in the Asian-Pacific region is a historical inevitability.

The Asian-Pacific region, particularly the western Pacific area, demonstrates the most economic vitality in the world today. It is also a region with the greatest potential. As mentioned previously, the rate of economic growth for this region surpasses that of anywhere else in the world. This economic growth must open up mutual trade relations and capital flow in order for this region to stimulate an international economic division of labor and

must deepen the mutually dependent relationship between countries to make economic cooperation in this region even more necessary and urgent. The Asian-Pacific region covers a broad, vigorous market, which demonstrates not only the growing proportion of its trade in world trade, but the growing trade activity between nations in the region. This situation reflects how the international division of labor pattern in this region is undergoing rapid change. Before the war, the division of labor pattern in this region was the traditional vertical pattern, but, after the war, particularly with Japan's recovery, the "four little dragons" were formed. This was followed by the formation of ASEAN and the catching up of other developing nations, such as the opening of China and initiation of reforms that are causing great changes in this region's division of labor pattern. The vertical division of labor still exists in the developing nations and in China, but the level of this labor division between the developed nations, the "four little dragons," ASEAN, China, and the developing nations is developing in different degrees, with everyone trying to step up the speed at the same time. Although horizontal distribution of labor exists in the natural resource model of a prosperous nation (for example, Australia), some nontraditional vertical division of labor is also seen in other prosperous nations and some developing countries in this region. Even as division of labor in various forms interlocks, it is developing generally in the direction of a horizontal division of labor. At present, between different countries in various stages of economic development in the Asian-Pacific region or between countries with different social systems there is a tendency toward increased specialized collaboration in their industries on a broad scale where an international horizontal division of labor pattern is practiced between different products in an industrial branch or between different product parts and different production sequences. There is also another tendency toward developing different industrial products on an even broader scale, including the exchange of already processed primary products. This provides the region with an even broader means for further economic cooperation in a mutually complementary relationship. In the Asian-Pacific region, not only is the market for trade expanding, its capital investment market is also growing. In the past, the greatest investors in the region were Japan and the United States. This pattern is now changing, and changing rapidly, with growing investment by the "four little dragons" in ASEAN and other developing countries, between developing countries, and even by the "four little dragons" in flourishing countries. This also explains how mutual interaction and mutual interdependence have deepened in the Asian-Pacific region.

Continued growth is expected in the Asian-Pacific region's expansion of trade, increase in capital investment, and deepening interdependence, and the interlock of various industrial division of labor processes. On the other hand, economic friction has arisen between

nations on different economic levels with varying interests, particularly trade friction that leads to the growth of trade protectionism. Collaborative cooperation between nations in the region is necessary in order to slow down this friction and resolve these conflicts to develop a regional economy.

## 2. Progress of the Pacific Economic Cooperation Conference (PECC)

Economic cooperation in the Asian-Pacific region began incubating in the 1960's when Japan's economic recovery began to soar, and it pondered its economic outlook and began to explore possibilities and models to use for economic cooperation in the Pacific region, from the "Pacific Free-Trade Zone" to the "Pacific Trade Exploration Organization," along with several other ideas and suggestions. On the basis of these ideas, the late Japanese Prime Minister Masatoshi Ohira and his foreign minister visited Australia in January 1980 and met with Australia's Prime Minister Frasier, and both sides agreed to promote economic cooperation in the Pacific. The meeting that was held in Canberra the following September was later called the first Pacific Economic Cooperation Conference (PECC). PECC is an organization whose members are individuals drawn in a personal capacity from the fields of politics, industry and business, and academia from related nations in the Pacific Basin who interested in collaboration to promote economic cooperation in the region. After the Canberra conference, the 2nd to 6th conferences were held, respectively, in Bangkok (Thailand), Bali (Indonesia), Seoul (South Korea), Vancouver (Canada), and Osaka (Japan). Following economic development in the Pacific, participation in these conferences snowballed. In November 1986, at the 5th conference, in Vancouver, China's National Commission for Pacific Economic Cooperation and China's Taipei Commission for Pacific Economic Cooperation both joined PECC as new members. Until now, the PECC has been a form of regional economic cooperation better suited to actual conditions in the Pacific region. Even with its imperfections, it still is a test of regional economic integration in transition toward global economic integration. It can also gradually assume certain organizational functions dealing with economic cooperation and development, and become a regional economic cooperation organization pursuing mutual development and mutual prosperity, although it should still be free, open, and nonexclusive.

## 3. Japan's Concept and Accord

Japan is a prosperous capitalist nation in the Asian-Pacific region, second only to the United States as a great economic power. Whenever Asian-Pacific cooperation or the Asian-Pacific economic sphere is mentioned, whether or not Japan wants to be cited as the most prosperous nation in Asia or as a global economic power, it is always pushed to the forefront. Take the "Asian-Pacific Sphere" that is always being discussed at present. Superficial analysis of the situation indicates that the possibility is quite remote. Japan also does not wish to

openly assume leadership of such a manipulative and exclusive economic framework. Should Japan do so, it cannot carry that much baggage, for many conflicts will converge on it and it will be faced with many unsurmountable difficulties. If the responsibility is not handled well, not only will Japan's image suffer, it will be the target of much public criticism.

However, this is not to say that Japan has no expectations of the Asian-Pacific region. The converse is true. If no noise is made about it, it can, in reality, reap the same kind of economic results. How can Japan do it then? Actually, Japan is like this, particularly after the peace treaty was signed in San Francisco, when Japan was acting like this with U.S. support. Japan is actively promoting Asian-Pacific regional economic cooperation, for this cooperation meets Japan's needs and interests. In proposing the "Pacific rim concept," Prime Minister Ohira had said, "On the basis of U.S.-Japan friendship, we must collaborate with all nations, to show our special concern toward nations in the Pacific region, in much the same way the United States shows concern toward countries of Central and South America, West Germany toward the European Economic Community, and the European Economic Community toward the African nations." Isn't this Japan's expectations suddenly appearing in print?

Ohira further proposes setting up a loosely knit belt around the Pacific rim, and "Japan must first provide economic and technical cooperation to countries within the region, who, at the same time, will provide it with a stable supply of agricultural products, raw materials, markets for processed goods, and lower tariffs for special products to facilitate the flow of the Japanese yen within the region and to expand on "exchanges of personnel." This "concept" is an important link in Japan's "total security strategy," its long-term strategy, and basic national policy. For this reason, while Japan may change prime ministers, its eye on the Pacific region and the strategic plan to realize this wish is unchangeable. After Ohira, there were other prime ministers—Suzuki, Nakasone, and Takeshita whose actions further prove this point.

To deal with the trend toward protectionism in Western Europe and the United States, nations in the Asian-Pacific region should not form economic blocs to deal with collectivization. They should, instead, strengthen economic cooperation to bring into play, the region's economic vitality. The fact that Japan can be the great economic power it is today is inseparable from contributions made by the developing nations. For this reason, Japan should make some contributions to the rest of the world, particularly to the developing countries. This is Japan's international responsibility. The problem right now is that some Japanese are afraid of the result of technological competition, so they are not transferring technology. It is like riding an automatic elevator to place some distance between Japan and some backward countries. Actually, this is a sign of shortsightedness. For the source of the region's outstanding vitality is the

competitive mechanism in which everyone is striving to catch up and get ahead. Moreover, broadening the mutually complementary relationship between nations in the region is very beneficial to developing the region's economy and economic cooperation.

#### 4. China's Role and Function

China, as the largest developing socialist country bordering the Pacific on its western rim, has always had a close economic relationship with the region. At present, more than 70 percent of its export trade is directed toward this area.

China covers a large land mass with abundant natural resources. Its market potential is also quite good. Moreover, it also has a fairly complete industrial-agricultural setup, with its production structure encompassing many levels of technical competence and a great variety of products. It does not matter whether it is collaboration of specialized production within an industry itself or exchange of finished products, conditions are present for strengthened economic cooperation with nations in the region, at various levels of development or with those where development follows a horizontal division of labor pattern, for these countries are important to China's economic development. On the contrary, China's economic development is expected to make an inestimable contribution to development and prosperity of this region. The well-known Japanese economist Saburo Okita said: "In a look into future economic development in the Asian-Pacific region, a large piece will be missing if China does not participate in economic cooperation in the Pacific." True, when we discuss the "advent of the Pacific era," if a large country such as China with its population of one billion is not developed and prosperous, it is difficult to truly say that the "Pacific era" has arrived.

We must not underestimate our capabilities, but realize our strength, position, and function. However, we must also recognize that our startup activities and development require much effort. We hope the Pacific region and even the whole world can develop and share in prosperity together. We actively participate in economic cooperation in the Asian-Pacific region, and hope our regional cooperation can develop in this direction. Any direction counter to this is not welcomed by us. We do not object to any free, open, and nonexclusive regional economic cooperation based on local characteristics. Conversely, we will actively promote such cooperation through regional economic integration to move toward integration in the global economy. We must be on guard and recognize any exclusive and protectionist regional collectivization that we find unacceptable. On the basis of mutual respect, strengthened exchange, common interests, and a spirit of shared development, China will actively participate in development of regional economic cooperation, also including PECC. China will fight for and recover the seat in GATT to serve common development of the Asian-Pacific region and to work hard

toward helping establish and gradually perfect a new international economic order.

Toward this end, even more fundamental is stepping up efforts to implement the four stages of modernization to increase China's "clout" with respect to matters dealing with the Asian-Pacific economy and the global economy. During this phase national unity is an important topic. This problem, with respect to Hong Kong and Macao, has been resolved through the "one nation, two systems" approach. With respect to Taiwan, we think the most practical and feasible approach is still the "one nation, two systems" method, which, at present, is not commonly recognized on both sides of the strait. This may require more time, but dragging it out is not good for either sides. At present, there is a kind of mentality and approach on Taiwan that is not favorable to unification. Referred to as "flexible diplomacy" and "double recognition," they actually reflect the political desire for two political bodies, the purpose of which is division. We hope for unification and economic development at the same time, for the two are complementary. Unification will stimulate development, and development will strengthen unification in a repeating cycle that is very beneficial to revitalizing China. In China, whether it is on the mainland, Taiwan, or the soon to be returned colonies of Hong Kong and Macao, advantages abound in each—natural resources in some, capital and management in others, and science and technology in still others. But they can all look forward to a broad future, complementing and supporting each other in mutual prosperity. After national unification, they will bring into full play, the advantages of each, to stimulate productivity. In a peaceful atmosphere of reduced military outlays, they can band together to protect and preserve the motherland, and devote even more energy to concentrate on economic construction and to strengthen our total national power. In this manner, we can effectively preserve the peace, be better able to balance and control some unjust forces and measures, provide for a growing market, and contribute our share to establishing a new international political order and a new international economic order.

### **Growing Cooperation Between FRG, USSR Analyzed**

40050627 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 14, 16 Jul 89 pp 4-5

[Article by Ruo Yu 5387 1946]

[Text] With a natural and unrestrained bearing and a poised demeanor, Gorbachev has caused one whirlwind after another around the world since he came to rule the Kremlin in 1985. On 12 June, when for the first time this highest leader of the Soviet Union appeared in Bonn, capital of the Federal Republic of Germany, it is said that he received the "warmest welcome" since President Kennedy visited West Germany in 1965. The welcoming ceremony was "warmer and lighter" than President Bush's welcome 6 months earlier. During his 4-day visit,

Gorbachev and Premier Kohl held three separate talks, during which they exchanged opinions regarding bilateral relations, European security, and disarmament. At the close of his visit they issued a "joint communique" outlining bilateral relations norms, signed an 11-item agreement regarding economic, scientific, technical, and cultural cooperation, as well as establishing an intergovernmental "hot line," indicating the great influence of Gorbachev's visit to Bonn. Accompanying the visit were 2,500 reporters from more than 40 countries. Public opinion generally held that Gorbachev's visit will raise Soviet-West German relations to a new high.

According to observers' analyses, the main task of this high-level Soviet-West German meeting was to set a foundation for long-term, stable bilateral relations, and to codify the format for bilateral relations in the form of a "joint communique." Considering its content, both sides adopted a method of avoiding heavy-handedness in favor of light-handedness. Regarding the reunification of Germany, short-range missiles, and other sensitive issues, they simply did not mention them, in favor of seeking relatively common language on the matters of EEC progress and European security. The communique emphasized the unity of Europe, indicating a desire to overcome European separatism, and seeking to move towards a "great house of Europe" and respect for human rights, self-determination by the people of each country and their security interests. It advocated that one country's security cannot be attained at the expense of sacrificing another's, and that war should not become a political measure. All of this is both in line with Western value concepts and also reflects a new line of Soviet thinking on foreign policy. The communique also agreed to bring Siberia into the scope of bilateral ties on the basis of an agreement among the four countries, showing that on this issue the Soviet Union will ultimately make certain concessions to satisfy one of the long-term needs of West German nationals. On the very thorny issue of German reunification, public opinion also noted that the Soviet Union's present stance has softened quite a bit, at least in terms of language, since Kohl's visit there. At the end of 1988, Gorbachev publicly reemphasized: Any plan to alter Germany's status quo is "risky," declaring that West Berlin's special status "cannot be shaken." But this time in Bonn, although Gorbachev indicated that the fact of two Germanys must be recognized, at the same time he also meaningfully emphasized that the world is continuously changing, saying that on the day when preconditions for the Berlin wall have passed, then the wall will be gone. Regarding this issue, observers felt that Gorbachev was already as indefinite as could be. Of course, West Germany also showed a certain degree of support for the Soviet Union. For example, it praised the establishment of a great house of Europe to include the United States and Canada; advocated that the United States and the Soviet Union destroy 50 percent of their strategic nuclear weapons, abiding by the premises of the antimissile agreement; and acceleration of progress on European conventional disarmament negotiations. As for the

Soviet Union, the greatest support was in West Germany's extension to it of economic and technical assistance. In this regard, one definitely secondary outcome of Gorbachev's visit to Bonn was the bilateral signing of a series of cooperative agreements.

Such a warm welcome and gracious hospitality for Gorbachev by the West German Government and public is from their own considerations and needs. West Germany has some important interests and issues it wants Gorbachev to help resolve, such as its security, German reunification, the Berlin wall... Only West Germany among the countries of Western Europe has this kind of "special interest relationship" with the Soviet Union. Two great military organizations are in forward positions on German soil. For a long time, West Germany always regarded the Soviet Union as its greatest threat. Since Gorbachev came to power, there has been an increasing detente between East and West. West Germany feels it should greatly support Gorbachev's reforms, and by developing relations with the Soviet Union and promoting contacts and exchanges between Eastern and Western Europe, it will eliminate the Soviet threat and further improve relations with East Germany, ultimately resolve the issue of Germany's division, and have conditions for the great project of unity.

From the Soviet perspective, it is extremely respectful of West Germany's important position and role in NATO and the EEC and positive attitude toward it. The Soviet Union emphasized that Soviet-West German relations are of "great significance" not only for Europe but for overall East-West relations. The Soviet Union wants to use West Germany as a breakthrough for opening up relations with other West European nations, promoting European disarmament and detente, and ultimately attaining its ideal of a great house of Europe. Economically, the Soviet Union also longs for West German technology and capital to improve its ever-worsening economic crisis. West Germany has become the Soviet Union's only ideal cooperative partner under the conditions that for a time it will be difficult for the Soviet Union to make progress in economic or technical cooperation with the United States and Japan because of political factors. Given this background, bilateral relations have warmed quickly since 1987. In July 1987, West German President Weizsacker officially visited the Soviet Union, breaking the "frozen ice" between the two countries. Since then, the once frozen Bonn-Moscow flight route has begun getting busy. In 1988, foreign ministers of both countries exchanged visits. And then Chancellor Kohl led a high-level delegation on the first official visit to the Soviet Union, opening a "new chapter" in bilateral relations. In mid-May of 1989, the day before a high-level Sino-Soviet meeting, Soviet Foreign Minister Shevernadze revisited West Germany to finalize preparations for the general secretary's visit. In the last two to three years, Strauss, Chairman of the West

German Christian Social Union (CSU); Vice Chairman of the Christian Democratic Union (CDU); Brandt, the honorary chairman of the Social Democratic Party (CDP) and its Chairman Vogel and others important in politics have visited the Soviet Union and met Gorbachev himself, thus achieving quite a bit of unanimity of government and public opinion regarding policies toward the Soviet Union. Formerly unimaginable bilateral military personnel exchanges are also beginning. In early May this year, Wellershoff, the Armed Forces Chief of Staff of the Federal Republic of Germany's military defense, visited the Soviet Union for the first time and was met by President Weizsacker. Bilateral economic trade and scientific and technical cooperation is rapidly rising to a relatively important place. Statistics show that in 1988 West German exports to the Soviet Union rose 20 percent over 1987, reaching 9.4 billion deutsche marks, while Soviet imports were 6.9 million deutsche marks. In 1988 when Kohl visited the Soviet Union, both sides initialed seven governmental agreements and 32 enterprise contracts regarding nuclear energy and food production cooperation; and the Soviet Union will be provided with 3.0 billion deutsche marks in commercial loans headed by the German Federal Bank. So far, there are 72 bilateral joint ventures and they will continue to grow. Thus, it is obvious that Gorbachev's visit to Bonn was a "fortunate chapter" in the development of bilateral relations. Some experts on international relations hold that the significance of Gorbachev's visit to Bonn goes far beyond the scope of bilateral ties, particularly in regard to West Germany's big opposition this spring to the United States on the issue of short-range missiles, when it refused to make a decision on modernizing them before 1992. While causing a ruckus within NATO on this issue, Moscow was publicly and privately bolstering West Germany. During this visit, Gorbachev repeatedly reaffirmed West Germany's stance on the short-range missile issue, cutting short U.S. pressure on West Germany and greatly praising national interests. Analysts feel that the Soviet Union thereby took advantage of West Germany's personal security worries to encourage it to jump from one extreme to the other, further expanding the cracks in NATO, hoping to create a new status quo in Europe advantageous to the Soviet Union. NATO's common interests are still quite far from those of the United States, so it cannot stray too far from Soviet policy for the time being. However, in line with the increasingly close relations between West Germany and the Soviet Union, as common interests increase regarding bilateral disarmament, European progress, and so forth, it will become increasingly difficult for NATO to have a voice to counter the Soviet Union.

Nevertheless, as Gorbachev was deeply hailed by the citizens of Bonn, the U.S. White House was making tense preparations for Bush's July visit to Eastern Europe. People paid great attention to how warm a welcome Bush received in Warsaw and Budapest, predicting that his influence and significance likewise is extremely subtle and important.

## NATIONAL AFFAIRS, POLICY

### Analysis of Economic Impasse, Proposed Strategies

40060711 Chongqing GAIGE [REFORM] in Chinese  
No 4, 20 Jul 89 pp 10-16

[Article by Wang Jue 3769 3778: "Thoughts on and Strategies for Breaking Out of Economic Impasse"]

[Text] The sudden explosion of inflation last year strained the entire economy. A series of retrenchment policies were adopted with temporary success, but the situation still appears grim. Looking at the trends of the economy as a whole, one sees the crisis as likely to continue to worsen.

#### I. Cause and Turnaround of Current Economic Situation

Although reform in China has gone on for 10 years with some success, we cannot deny that the shortcomings of the traditional system are the underlying institutional factors behind the current impasse. In its traditional form, public ownership and the resultant fusion between government administration and enterprise management are profoundly incompatible with the commodity economy. Since this form of public ownership and the fusion between government administration and enterprise management have remained basically intact and since the commodity economy increasingly requires its own self-development, this incompatibility will inevitably come to the fore amid the coexistence of the old and new systems, thereby pushing us into a crisis.

#### *Institutional Factors Behind Economic Impasse*

1. Reform in the last decade remains superficial reform based primarily on policy adjustments to delegate power and allow enterprises to keep their profits. It has failed to fundamentally move beyond the reformism—lowering corvée and taxes and recuperating with the people—characteristic of the centralization of state power. These policy adjustments cannot spontaneously lead to organizational and institutional innovation in economic activities. As a result, there will come a point when policy adjustments must be furthered. The alternative is economic difficulties or worse. This is the reason why historically power decentralization always reverted back to centralization.

2. In the course of reform, we have failed to examine in depth and scientifically determine the overall goals of the planned market and often tended to regard the free competitive market as the goal of reform. Our pursuit of this unrealistic goal determines that our reform plan lack operational capability and often increases the confusion in practice. The inevitable outcome is skepticism about and opposition to the goal of establishing a market. Our determination to introduce genuine market reforms under all kinds of practical restraints would also be affected.

3. This is precisely the reason why reform tends to be short-sighted. "The double-track pricing system," "revenue separation," and other transitional measures make too many concessions to the traditional system and an unreasonable interest setup. As a result, many "transitional measures" are not coordinated with one another and are not capable of developing into the new system on their own. Thus they depart from, and even contradict, the overall goals of reform.

The above-mentioned factors exacerbate the confrontation between the two systems during the transitional stage. The coexistence of the two systems in the transitional period is inherently unstable. Hence, the organizational disorder in society and the economy and other chaos.

Working together, these institutional factors have worsened the distribution of national income. This means more than so-called unequal distribution. Even more important, it means a worsening of the use structure of national income, directly contributing to the lowering of microeconomic profits and an imbalance between the total of macroeconomic variables and structure, exacerbating inflation.

#### *Inherent Constraints on Economic Development in China*

A population that is racing ahead of modern economic development is the primary constraint on economic growth in China. Past policy errors and the fact that population growth in rural areas is getting out of control are putting economic development under tremendous pressure.

Given extraordinary population pressures, China's severe shortages of natural and economic resources will remain for a long time to come. Although China leads the world in the total deposits of several kinds of natural resources, it is far below world average in terms of per capita consumption. Besides, the deposits are not evenly distributed and the costs of collection and distribution are immense. Each year about one-fifth of the increase in national income goes toward feeding the increase in population, so the deep shortfall in funds needed for economic development is an enduring difficulty that has not proved amenable to solution. Over 70 percent of China's population lives in the backward countryside where the standard of education is low. Illiterates make up one-quarter of the nation's population. Since the quality of the labor force is poor, the nation does not reap the benefit of its vast labor resources. Moreover, massive population pressures are the root cause of all kinds of social problems.

The fragility of the agricultural base, the backwardness of the primary sector and infrastructure, and the low standard of science and technology overall also limit economic development in China in the long run.

Traditions and habits formed in a backward and isolated small-peasant economy and society, the egalitarian mentality of members of society inculcated under the old



system, the concomitant mode of conduct and way of life, and the abiding influence of the traditional ideology have worked together to form a social cultural environment that has negatively influenced the development of a modern economy in China and the furthering of reform.

### *Reform and Development of System Are Not Coordinated*

A variety of factors has contributed to the current economic impasse, but one thing stands out, namely the conflict between reform and development. The changeover in economic system is incompatible with the changeover in economic development model.

Basically speaking, reform should serve economic development. But economic development is absolutely not analogous to economic growth. Instead, economic development is first and foremost the maturing and optimization of the entire economy. On the other hand, reform and development are each governed by their own special laws. Each labors under its own special difficulties and each assumes its own operational forms. Therefore, it is critical that reform and development be coordinated and that they promote each other. This is an issue we have overlooked so far. As a result, reform and development are totally uncoordinated and at cross purposes. In particular, we have an insufficient understanding of the special conflicts, constraints, and demands of the economy as China moves from a backward society to a modern society. It has been said time and time again that our economic development model must be efficiency-oriented, not speed-oriented as it has been traditionally. In fact, however, our guiding thought is still confined to a thoughtless obsession with speed while ignoring the improvement of economic efficiency. Thus, no substantive progress has been made in model changeover. Whatever the temporary payoffs of speed-oriented overheated economic growth, there will come a point at which resource restraints will lead to a complete imbalance between gross volume and structure, resulting in a slowdown in growth itself. Consequently, both development and reform will be hindered, putting us in a dilemma: Because of severe economic difficulties, structural reform that should be introduced cannot but be postponed. Meanwhile, the structural reasons that had led to the dilemma in the first place cannot be eliminated anytime soon.

### *Opportunity Presented by Economic Impasse*

Today China is faced with the grimmest economic situation in a decade of reform, but there is no running away from it. At the same time, we must see the opportunity that comes with the difficulties, that is, an opportunity for both development and reform to proceed in a healthy manner. This opportunity not only presents us with the mission of coordinating reform with development, but also points up the way for accomplishing this mission, namely, decisively and rationally

adjusting the industrial structure. By adjusting the industrial structure, we can put the changeover in development model and economic structural reform model on a new path again. Economic development depends on the optimization of the industrial structure, while economic structural reform must serve economic development and hence industrial structure optimization. Thus, an important lesson the current economic impasse should teach us is that as we rectify the economic environment, restore economic order, and reform, we must come to grips with industrial adjustment under the guidance of a correct industrial policy to ensure the unity of development and reform and bring about the coordination of the change in structural model and development model.

Accordingly it must be made clear that: 1) Rectifying the economic environment, restoring economic order, and reform must not be concerned with short-term objectives. Short-sighted policies and frequent policy changes spawn confusion and future uncertainty, something often worse than the problems they are intended to solve.

2) The basic approach to overcome the crisis is not to suppress conflicts, but resolve them. It is unrealistic to look for a "miracle" cure without paying a price.

3) Wanted: Resolve and courage to put up with present difficulties in the interest of long-term development and for the sake of the nation's future.

## **II. Principles for Determining the Guiding Thought To End the Current Impasse**

Our effort to end the current economic impasse is not fully focused on the underlying factors. We have been overly dependent on administrative fiat as a stop-gap measure, not long-term solution. On the other hand, deliberately or otherwise, we seem to pit rectification and restoration against reform in our thinking, bringing reform to a standstill. This demonstrates that because we have not completely understood the underlying reasons and opportunity, old conflicts have not been really resolved while new ones have appeared. Judging from the economic situation in the first quarter of this year, neither inflation nor the factors that led to it: overinvestment and over-consumption—have been brought under effective control. Meanwhile, disorder has broken out in banking services, the profitability of the industrial economy has declined, material reserves in the commercial sector have shrunk, large and medium-sized state-owned enterprises have cash-flow problems, and the industrial structure continues to worsen. Thus we must clarify the guiding thought for ending the current impasse as well as the principles for the proper handling of several important relationships between reform and development.

### *Rectifying the Economic Environment, Restoring Economic Order, and Furthering Reform*

To handle the relationship between rectification and reform correctly, we must unite the two after distinguishing between and combining short-term objectives



with long- and medium-term goals. Rectification and restoration cannot depart from the direction of reform. In fact, only by furthering reform can we rectify the economic environment and restore economic order overall. Toward that end, we must:

1) Sort out the more than 40 measures introduced to rectify the economic environment and restore economic order. A "systematic" reform-oriented "rectification-restoration-reform" plan must be drawn up. Once affirmed, the plan must not be changed lightly. It should be the guide for making orderly progress.

2) Assuming that they increase their capacity for policy analysis, macroeconomic regulation and control agencies should draw up a more coherent regulation, control, and contingency plan with clear guidelines. They should step up microeconomic regulation and make themselves better able to deal with emergency situations in order to stabilize the economy.

3) It should be pointed out that administrative methods, while still necessary, must be deployed properly. Instead of using them as a substitute for the internal regulatory mechanism of the commodity economy, we should use them as a deterrent to help establish a new market order and an enterprise system, ensure economic operations, and maintain social stability. Moreover, we must assess present administrative efficiency correctly even as we deploy administrative tools.

The tendency to consider reform, on the one hand, and rectification and restoration, on the other, as mutually exclusive, deliberately and otherwise, springs from a fundamental error—an underestimate of the severity of current economic life. We err if we believe that the economy would turn around after just 1 or 2 years of aggressive effort on our part. In fact, this notion betrays our impatience for quick results. Therefore we must firmly overhaul our thinking and reaffirm our seek-truth-from-facts attitude. Rectification and restoration is a major event, a complex piece of social engineering that affects 1.1 billion people and assets in the tens of thousands of billions of yuan. The smallest of error could have the most extensive ramifications. It is simply impossible to turn the economy around fundamentally without thinking through comprehensively for the next 3 to 5 years and without integrating it organically with reform.

#### *Industrial Policy and the Opportunity for Structural Change*

By and large, Chinese industry is still in the labor-intensive stage moving toward the capital- (or equipment)-intensive stage. As a result, raw material industries and manufacturing industries are presently in an expanding phase. When people say there is over-capacity in China's manufacturing industry and that the tertiary sector is underdeveloped, they mean that raw material industries are grossly backward, the manufacturing

industry is structurally unsound, and commodity circulation has been restricted. All this makes the formation of an industrial policy imperative.

An industrial policy includes not only the preferred sequence of development of different industries. Even more important, it must be embodied in the government's various macroeconomic policies. The actual situation now is this. The government's macroeconomic policies are at odds with the direction of industrial development. Instead, the government is merely trying to turn around the "reverse regulation" of its macroeconomy through administrative tools. This shows that the old development model and its concomitant traditional system have remained intact. Industrial expansion requires large amounts of energy and raw materials, yet they have always been underpriced. In contrast, fueled by inflation, the prices of manufactured goods have skyrocketed in the wake of price deregulation. Even today our foreign trade is still dependent on the export of enormous quantities of energy and raw materials, resources in short supply at home, to earn foreign exchange. At the same time, we import durable manufactured goods on a large scale, which compete with their China-made counterparts. Our industrial policy is at cross purposes with the goal of the optimization of the industrial structure.

The key to implementing a correct industrial policy is a fundamental change in the government's macroeconomic policy and its regulatory and control methods. This is the only way to develop priority industries. Involved here is the key issue of whether or not we can firmly push ahead with economic structural reform in the midst of rectification and restoration. In this context, we should consider price adjustment, tax differential policy, and the adoption of a revenue-oriented credit policy.

A new difficulty in the implementation of the current industrial policy is that as administrative power is delegated, the central government's macroeconomic regulatory and control methods become defused. Local authorities have drawn up a series of regional development policies that are in conflict with the overall situation, thus further worsening the national industrial structure. As for the central government, it has lost the ability to adjust regional development policies from the central perspective. As they say, "the state may have its policies, but localities have their countermeasures." Reform, meanwhile, takes the form of giving localities preferences and the power to make policies. Not only does this fail to prevent local fragmentation, but it actually legitimizes this tendency. In the absence of new drastic measures, the result of retrenchment is certain to be the sacrifice of highly efficient large and mid-sized key enterprises and the survival of inefficient scattered processing industry.

#### *Total Volume Control And Structural Adjustment*

A correct industrial policy will define the direction of China's industrial development for a long time to come.

Yet it has been put forward as a direct response to the fact of economic life today—the gross imbalance between total volume and structure. To implement an industrial policy, therefore, we must begin by righting the imbalance between total volume and structure.

Whether or not to control total volume and what price we should pay for such control have been much debated questions over the past few years. As soon as a belt-tightening policy is adopted, the localities and operational sectors experience economic hardships. They will ask the central government through every channel to loosen the reins. Yet if the central government continues to pursue an easy credit policy, inflation will become worse and worse. Not only will the masses and enterprises find this unbearable, but worsening inflation will also be a severe blow to local finances. The present difficulty is not the result of belt-tightening, but the credit explosion earlier. Certainly we do not mean to suggest that total volume control should be overly strict, we have always advocated “soft landing,” but total volume control cannot be scrapped.

Structural adjustment and total volume control are not mutually exclusive. The reason is that only on the basis of total volume control can we proceed with structural adjustment. Moreover, the effects of structural adjustment will not be felt until after a period of economic development. Only then will it be possible to relax and even abolish some of the total volume control measures adopted earlier. Similarly, if we only stress total volume control and disregard structural adjustment, the structure will worsen, thereby exacerbating overall chaos in economic life.

Right now the drive to impose total volume control and bring about structural adjustment faces three difficulties. First, the price structure does not make sense. Not only is total volume retrenchment unable to scale back industries producing more goods than needed, but it actually hurts the production of goods in short supply, resulting in so-called “reverse regulation” and further worsening the structure. Second, because of the fusion between government administration and enterprise management, revenue departments at all levels become the natural protective umbrella of enterprises at their levels. Efficient enterprises may not survive if their “grandmother” is too weak, while inefficient ones may well prove unassailable if their “grandmother” is “domineering.” Third, the practice of delegating power and letting enterprises keep their profits irrespective of regional distinctions may well end up severely weakening the central government’s macroeconomic regulatory and control capacity. Thus, we can see that we must further reform in a timely way if only to rectify the economic environment. With that understanding, we should firmly proceed with structural adjustment within the framework of total volume control. If we cannot accomplish structural adjustment effectively, we will have tightened our belt for nothing.

#### *Demand Control and Supply Increase*

In inflationary times, controlling excessive aggregate social demand is a herculean task. Cutting back on government administrative expenses can set a good

example and make the public more tolerant of price increases. The key question is how we can limit the expansion of government agencies through institutional development and make government work more openly and efficiently. Only when that comes to pass can we bring down social institutional purchasing power, tighten import management, reduce government administrative expenses, revamp and reform the existing welfare security system, and implement a variety of policies to control demand.

The most difficult aspect of demand control is introducing an anti-inflation income control policy. The thrust of an income policy should be to sort out the sources of personal income, improve the standard of social bookkeeping, and gradually enforce a personal income tax policy. As for savings, we should continue to ensure their value. On that basis, we can sell housing and some state assets and stocks and reform the social welfare security system to lessen its pressure on the market.

Conventional wisdom holds that the fixed assets investment explosion is an important factor behind the explosion in aggregate demand. But capital construction represents future productive capacity. Improper control, therefore, may directly affect market supply a few years down the road. Accompanying the explosion in fixed assets investment is poor investment returns. Therefore, investment control should vary from sector to sector depending on their different investment returns so as not to hurt the increase of effective supply. At present, because capital construction in China is financed primarily by the government, the effective control method in the short run is administrative fiat, not the bank. To adjust the industrial structure, it is necessary to use administrative methods to control investment in popular industries. On the other hand, the treasury alone cannot expand investment in unpopular industries. Instead we must raise the prices of the products of these industries by groups in stages in an orderly manner in order to attract social funds and increase supply capacity. Given the imbalance between supply and demand at home, which will remain for some time to come, we should take drastic measures to firmly ban the export of products in short supply, strengthen stock-taking control and financial supervision over circulation enterprises, and strictly outlaw hoarding and illegal speculation in order to maintain normal production circulation and ensure market supply. But this should be done without slackening our effort to adjust prices and organize a market.

#### *Price Stabilization and Economic Life Stabilization*

During inflationary times, social stability may be maintained by stabilizing prices through administrative control and financial subsidy. But we must be clear-headed enough to see that such measures are effective only in the

short run. In fact, such effectiveness is purchased at the price of a severe drain on government revenues. Over the long haul, short-term price stabilization measures may continue to encourage inflation. What with "finance contracting" and "enterprise contracting," their impact on the government treasury may be particularly severe. We must be clear in our minds that price increase itself is a normal reaction by the market to the actual scarcity of goods. As long as society can put up with them, price increases of a certain magnitude are the simplest way to solve existing inflation and contributes to the long-term stabilization of economic life.

To ease the pressure for price increases, one rectification measure today is to use a mix of administrative and economic means to reduce the amount of money in circulation. The problem earlier was that this approach eroded bank profitability, on the one hand, and lowered bank credit worthiness, on the other. From a technical perspective, when control on the money supply becomes excessive, not only will banks lose their credit worthiness, leading to the "extra-circulation" of cash, but the normal operations of the economy will also be affected. Raising interest rates on deposits, needless to say, stabilizes savings (and maintains their value), but interest rates on loans must also go up, otherwise banks will lose revenues. Yet interest rates on loans cannot but be limited by the fund return rate of production enterprises. Thus, the stringency of this control method must be carefully monitored. In short, between stabilizing prices and maintaining the credit worthiness of banks, we cannot sacrifice the latter to protect the former in the long run.

The negative effects of price control are magnified by China's lopsided price nature. This is because whatever the government can control through administrative methods is exactly those prices that cannot be held down. One such group of prices is energy and raw materials. Another consists of upscale durable consumer goods. As for the so-called "bread and butter" items in daily life, those are the prices the government cannot control, however high they might be. Under these circumstances, the government should put its limited financial resources to use by subsidizing the minority of people in the low-income strata, instead of burdening itself with responsibilities other than ensuring that people do not suffer from hunger or cold. Low-income families have a high Engel's law coefficient and are hit harder by inflation than other families. Whether on grounds of social justice or stability, they should be the primary target of government work. To ensure the normal operation of the economy and prevent industrial decline, we should firmly raise the prices of energy and raw materials and equally firmly prevent indiscriminate price increases in the circulation system.

#### *Price Reform and Enterprise Reform*

Price reform miscarried last year owing to potential inflationary pressures. But there is no getting around the issue of price reform. On this issue, the trouble with a

certain faction in the theoretical community is its infatuation with "thorough" or "total" price decontrol. Such infatuation is wrong. In any nation prices can be divided into three types: those that are directly controlled, those that can float within limits, and those that are deregulated. Thus we must not think that only price decontrol constitutes price reform. In times of market shortages, adjusting the prices of products in short supply that are clearly underpriced also constitutes price reform. Particularly when enterprise reform is stalled, if the state gives up its effort to adjust prices, the only outcome will be more market chaos. We are not in a position to get rid of the "double-track pricing system" totally at the moment, but provided the government flexibly adjusts the prices of planned products and narrow their gap with market prices, we can reduce its danger to a minimum.

Enterprise structural reform centers on the invigoration of enterprises, especially large and medium-sized state-owned enterprises. But the purpose of reform is not privatization, but the clarification of property rights relations under public ownership. First, we must sever the umbilical cord between enterprises and government. Then we must clarify the relationship between asset owners at all levels under public ownership. Finally we have to clarify the operational relationship between asset owners and enterprises. At present enterprise reform primarily takes the form of contracting. But if we look at the trend of intensive reform, we still believe the joint-stock limited company should be the principal way to organize publicly owned large- and medium-sized enterprises. The contracting system and share-holding system can be made to dovetail with each other; they are not mutually exclusive.

Should price reform precede enterprise development, or vice versa? We need not get entangled in this debate. The former, that is, price reform, has to do with market formation. The latter, with market as the dominant force. The two cannot be separated. The burning issue at the moment is this: After the economic environment has deteriorated, can the two move ahead? In our opinion, they must move ahead. Between chaos and progress, we must choose the latter. After overcoming the prejudice against "decontrol," the government must take up the responsibility of organizing a market and introducing a modern enterprise system.

As long as we recognize that the commodity economy is a developmental stage in socialism that cannot be skipped, the maturing of the market should not be arrested and instead must be institutionalized as soon as possible. Only on the basis of a mature market can our planning work. The real intention of planning is not to manage material production, but to coordinate the economic activities of members of society. When personal freedom is guaranteed, the socialist planned commodity economy or the socialist planned market economy is the only hope for our structural reform.

### III. Policies and Coordination Measures

#### *Make A Strong Effort To Change Macroeconomic Regulatory Methods*

Formulating and implementing an industrial policy is a basic part of macroeconomic planned guidance over the commodity economy. A coherent industrial policy should be a system. It should include: 1) an industrial structural policy. This deals with interindustry relations and the allocation of resources society-wide; 2) an industrial organizational policy. This deals with enterprise structure, market order, the relationship between monopoly and competition, and other issues; 3) policies dealing with related technology, energy, and regional distribution; and 4) the tools of implementing an industrial policy, including financial tools, banking, administrative guidance, direct management, and economic legislation. It is therefore proposed that the State Planning Commission assemble a group of scholars and experts to work out a feasible and effective industrial policy. Such a policy should include: 1) a long term economic guiding plan to clarify economic prospects and goals; 2) an inclination policy for industrial structural adjustment designed specifically to deal with the more glaring structural anomalies; and 3) an industrial organizational policy designed specifically to counteract the lack of economies of scale in China's processing industries at present in order to promote the realization of economies of scale within industry. In addition, a number of economic laws and regulations should be formulated in light of the demands of the industrial policy.

At the heart of the change in macroeconomic regulation is the shift in government functions. This shift means replacing direct government administrative control with indirect regulation and control. Specifically, the shift manifests itself in three aspects: 1) create a capacity to study, formulate, and offer advice on industrial policies; 2) revamp the existing financial contracting system and revenue separation between the central government and local authorities; and 3) establish a banking system armed with the power to regulate and control independently. In the process of reorganizing government functions, we must set clear regulatory and control objectives, resolve the conflicts of interest between the central government and localities, achieve flexible regulation and control with economic tools, and create conditions for "resolving" a problem instead of "burying" it.

The key to creating a capacity to study, formulate, and offer advice on industrial policies lies in changing the functions and work methods of the planning commissions so that they become the nerve center of guided economic development. The new functions of the State Planning Commission [SPC] should be to formulate and promulgate an industrial policy and all related policies in a timely way, thereby guiding economic development correctly on the macroeconomic level. As the SPC takes on new functions, local planning commissions should become the implementing, supervisory, and consultative

bodies for industrial policy and work hard to harmonize the relations among local authorities, enterprises, and the central government.

The existing distribution of interests between the central government and local authorities must be adjusted and reorganized. In our opinion, on the basis of account separation, we should remove the Central National Assets Management Bureau from the jurisdiction of the Ministry of Finance and establish similar bodies at the local (provincial) level under the supervision of the People's Congress at the appropriate level. Without adding new government workers, capable cadres should be transferred to set up an agency to discharge the functions and responsibilities of owners. Also, state-owned fixed assets should be inventoried as soon as possible. The costs of such an exercise should be borne by the finance department at the appropriate level for the time being. After profits and taxes are separated, the costs should be deducted from the returns on assets according to a universal formula to be determined by the finance departments.

Beginning next year, a system of revenue separation between the central government and local governments will go into effect on a trial basis. Before tax reform, income tax was split 2 to 5, while product tax went to the central treasury in its entirety. To help local authorities maintain their revenues at the present level, the Ministry of Finance should return revenues to them for policy-related purposes using the base number late last year as a standard. These transactions, however, should be kept separate in the books. To ensure these measures will be implemented, we now must go about beefing up tax agencies. It is suggested that competent cadres be transferred from agencies dealing with finance, planning, structural reform, culture, education, and health to support tax services. The tax system should be put under uniform central leadership and the change system and auditing and mutual inspection system should be introduced by stages and in groups. The efficiency of the tax system and the openness of tax work should be increased. The stocktaking of assets is expected to take about 2 years, after which we can introduce the reforms. Tax reform resulting in the separation of profits and taxes will unify the way in which enterprises of different ownership systems pay income taxes.

Central to the two changes above is the notion of "clarifying the ownership of state assets already fragmented and centralizing the power to collect taxes, which should not be dispersed," within the framework of "delegating power and giving up profits." Because of the need to maintain revenues at late last year's level, the national treasury may experience some difficulties. We should consider selling off some of the assets of key state-owned enterprises in the form of stock instead of resorting to the rigid old method of asking for advances. Because local revenue contracting expires at the end of this year, we believe it would be better if we move toward the revenue sharing system and the two-level budgeting system that combines power with responsibility. This is

the only way to truly resolve some of the problems that have never been resolved in central-local relations.

The thrust of banking reform is to reinforce the regulatory and control power of the central bank, revitalize grassroots banks, and restore order in the banking system. Amid the diversification of interest entities, the central banking system is the most important tool available to the state to achieve macroeconomic control and regulation. Accordingly we need to increase the independence of the central bank to carry out policies and exercise vertical leadership. We should set up branches in major economic regions and large cities, abolish branch banks in provinces, and reduce intervention by local governments in banking policy. Banking structural reform has been lagging. We should change that so that property relations between the central special bank and branch banks in the provinces are well understood. Grassroots banks should be made accountable for their profits and losses and required to balance their books without delay. To ensure large enterprises' access to funds, we may set aside part of the funds of the industrial and commercial bank and create an "economic revitalization bank."

We should raise interest rates until they are higher than the rate of inflation, work hard to improve banking services, and enhance the reputation of banks. All that is essential is channelling into the banking system some of the nearly 170 billion yuan in cash now in the hands of citizens, invigorating banking, and easing our many economic difficulties at the moment. Out of consideration for the ability of banks and enterprises to cope, interest rates on savings must be raised earlier and higher than those on loans. As enterprises become more profitable, we can then reintroduce the normal differential between interest rates on savings and loans.

Contracting is not the way to reinvigorate grass roots banks. Instead, what does offer a way out is the clarification and institutionalization of the property relations between central special banks and provincial branch banks following the model of the subsidiary of the multinational corporation. Because assets are clearly defined in the banking system, resistance to this change would be relatively mild. That being the case, it is possible to encourage grassroots banks to offer services and compete with one another on an inter-regional basis. As part of reform, grassroots banks may openly sell some of their stock to enterprises and society to diversify the sources of their assets and strengthen social supervision. The development of urban and rural credit unions should be fostered. But as far as property relations are concerned, they should be separated from existing grassroots banks. Their collective and even social ownership should be affirmed and they should be subject to the supervision of banking inspection bodies.

Restoring order in the banking system is not intended to stop banks from offering overlapping services, but some specialization is in order. It is proposed that all banks

other than the central bank stop offering foreign-currency saving accounts services. Also recommended for abolition are the circulation methods of foreign exchange certificates and the payment methods of travelers' checks and renminbi. Tacitly approving and even tolerating the circulation of foreign currency within China not only damages our national reputation but also contributes significantly to the current economic chaos. After the property relations of grassroots banks are straightened out, we need to work out a series of banking laws and regulations. The system needs to be perfected to control speculative behavior in the financial market.

#### *Promoting the Maturation of the Market*

Nothing else epitomizes the current economic chaos better than overheated commerce and the excessive profits in the commercial sector resulting from the double-track pricing system. This is the primary root cause of the confusion surrounding commerce regulations, flagrant speculation, and excessive market competitiveness. Agencies in charge of industry and commerce, prices, tax, and auditing should cooperate with one another to crack down on blatant illegal speculative activities in the circulation system. Other than that, we should concentrate on the creation of a new market system and the maturation of the market. Reform should proceed along these principal lines: 1) through organizational adjustments, enable key production enterprises to enter circulation directly, thereby avoiding unnecessary intermediate stages; 2) give major state-operated commercial enterprises more decisionmaking authority so that they could raise funds to produce what the market wants; and 3) through institutional construction, energize price management in the wholesale stages. Provided these important tasks are accomplished, we should have no difficulty in creating market order and the government would also be able to increase its revenues.

The key to restoring market order lies with the successful management of the wholesale system. State-owned wholesale organizations, on the one hand, must assume the responsibility of allocating commodities and managing the market. On the other hand, they also engage in the buying and selling of commodities. Under the double-track pricing system, with its two sets of objectives and regulations, they buy and sell as the opportunity presents itself using their legal monopolistic position. Thus, the need exists to further reform and clean up wholesale organizations. These organizations must be removed from the commerce administrative agencies to which they are now subordinate. Moreover, property relations must be clarified gradually. Wholesale organizations should no longer be responsible for allocating commodities. Instead, they should become genuine independent operators and enter the market as major players. Commercialized wholesale organizations may also regulate and control the market and monopolize the sale of a limited number of commodities when they are commissioned to do so by the state. But it should be made clear that they are nonprofitmaking when they do function in such a capacity.

In view of the current problems of departmental monopoly, regional blockade, and market fragmentation, the government should go about planning the creation of a planned wholesale market for agricultural products and capital goods without delay. As far as agricultural products are concerned, we should first establish a central planned wholesale market for grain. After this market is set up, all illegal grain markets, apart from those which regulate surpluses and shortages, must be closed and abolished. The half-yearly goods and materials-ordering market should be replaced by a planned wholesale market for different kinds of capital goods. Participants in such a market should include key state-owned production enterprises and the goods and materials agencies at both the central and local levels. Participants should also set up a market management committee. Operators who want to participate in the market should be carefully screened. Member enterprises may act on behalf of nonmembers and charge legally determined fees for their services. The four kinds of steel over which the state has a monopoly should be auctioned by the state on the planned wholesale market. Furthermore, market laws and regulations should be drawn up as necessary. Market supervision and inspection should be carried out by the agencies in charge of industry and commerce, prices, taxes, auditing, and supervision.

In view of the fact that the double-track pricing system cannot be completely eliminated in the foreseeable future, measures should be taken to contain its harmful effects to the greatest extent possible. First, the scope of the system should be clearly defined and reduced. Operational rules should be drawn up for the system. Second, the state should systematically raise the prices of state-controlled commodities that have hitherto been underpriced. The law of value should be respected so that these prices do not differ too substantially from market prices. Right now the prices of grain, cotton, oil, and coal as well as transportation charges should be adjusted. Excessive profits in the commercial sector should be replaced by better prices for production enterprises. Fourth, price subsidies, to be handled by operational agencies or centrally by the state, should be offered to agriculture and primary industries.

#### *Furthering Enterprise Reform*

To revitalize enterprises, we must overcome the simplistic tendency to assume that one key opens all doors. Whether it be the planned business accounting system, contracting system, or share-holding system, nothing is a panacea. Even state-owned key enterprises are different from one another organizationally because they have different industry-related characteristics. Whatever the method adopted, it must preserve, not weaken, enterprise operational vigor. Also, the standards of organization and management within the enterprise must be improved. To a large extent, whether or not enterprise reform can move ahead depends on the differentiation of

state functions and the separation of enterprise management from government administration, not on the enterprises themselves. What would make enterprise reform a success could be the establishment of a modern enterprise system. A major effort should be made to bring about the merger or linkage of enterprises in different industries. The replacement of the formation of corporations by the share-holding system may well represent a sound approach to the establishment of a modern enterprise system.

During economic hard times, we should focus on key large- and medium-sized state-owned enterprises, as they are the backbone of the national economy, the main engine for supplying commodities, and the primary source of government revenues. Most of these enterprises are in industries whose products are in short supply. How they are put to use during adjustment has a direct bearing on the success of the rectification of the economic environment and the restoration of economic order. After half a year of belt-tightening, however, these enterprises have been the hardest hit. Lacking funds, energy, and raw materials, they find it difficult to continue production. If these problems are not resolved, stagflation would be inevitable, so they must be taken seriously. To revitalize large- and medium-sized enterprises, we should return to them the power to sell their own products, set prices, and invest—powers that had earlier been delegated to them but were recently taken away. We should also enable them to enjoy some stability in the supply of energy, funds, and raw materials. Should any shortages arise, they should be free to fill the gap on their own on the market.

Right now the system of contracted responsibility for enterprises is fully underway. Enterprises with the necessary wherewithal may try out the fully secured necessary contracting system. Enterprises without the necessary wherewithal can build on their present contracting system, improve their business accounting, and further straighten out their relations with the government. Enterprises that have already adopted the share-holding system on a trial basis should improve the general manager responsibility system under the leadership of the board of directors, at the same time cultivating inter-regional horizontal economic linkages based on the characteristics on the industry to which they belong.

Given the fact that the enterprise property relations cannot be sorted out anytime soon, past management methods with proven effectiveness should be beefed up, not discarded. In particular, we must not overlook the part worker organizations can play in strengthening enterprise management. In principle, the "constitution of the Anshan Iron and Steel Complex" is still correct on the improvement of the management of large enterprises. In times of economic hardships, there is a special need to strengthen the leadership of trade unions among workers. When it comes to setting policies on worker welfare and wages, we should in principle meet with the workers. Bookkeeping standards in state-owned enterprises should be raised to let workers understand their

actual wage levels. Insurance and retirement systems should be perfected and gradually socialized to set the workers' minds at ease.

### *Agriculture and the Rural Question*

Rural reform is the starting point of economic structural reform in China and a success story that has attracted worldwide attention. We should realize, however, that the success of rural reform exacted a price—the deterioration of land, natural resources, the environment, water conservancy works, mechanized farm work, and other basic production conditions. It was also achieved by sacrificing rural grass-roots organizations. Part of our guiding thought is the belief that “contracting” is a panacea. Rural capital construction and the development of rural grass-roots organizations were seriously disregarded. As a result, rural development lacks lasting momentum, agriculture has become highly vulnerable to natural disasters, and policies are not implemented fully. The current drive to intensify rural reform, therefore, must correct our guiding ideas, take practical measures, strengthen the position of agriculture as the primary sector of the economy, apply the law of value to guide agriculture, and inculcate the idea that the entire population should “protect agriculture and protect the peasant.”

That the prices of agricultural products do not make sense is one of the principal disincentives to production. As grain prices are the base of and are related proportionally to all other agricultural prices, the procurement prices and sale prices of grain should be raised in stages. Needless to say, no country in the world, whether it is a grain importer or exporter, practices total laissez faire when it comes to the prices of agricultural products, particularly grain. In this context, what lies at the heart of establishing a market is respect for the law of value, not the abandonment of necessary price management.

Many of the problems in rural contract procurement and family planning in recent years can mainly be attributed to the paralysis that has gripped grassroots organizations in the countryside. Because of the development of township and town enterprises, the strengthening of political organizations in those jurisdictions promises to bring the villagers' committee and the government closer together. In view of the fact that urban reform has been bogged down and township and town enterprises have fallen on hard times over the last few years, political construction in townships and towns has been plagued by the shortage of funds. Given these difficulties, we should reconsider putting to work once again party grassroots organizations below the county level. In economic lean times, it is not enough to rely on the government alone.

The reason land resources have deteriorated is blurred ownership. Out of consideration for historical factors, we should make it clear that land ownership belongs at the township class 1 level and that land is still owned collectively. A land resource management committee

should be set up to be the representative of land ownership. Land use must be paid for and based on a long-term leasing system.

The state should draw up legislation to ensure stable inputs in agriculture. Even as we intensify the construction of grassroots rural organizations, we should consider quickening the construction of the agricultural infrastructure through sweat equity and labor accumulation. Agricultural activities are seasonal. The state should adopt a preferential policy with regard to the production and supply of agricultural capital goods and ensure that the farming season would not be missed. In addition, by issuing land use certificates, the state should promote the concentration of agricultural land, which would benefit long-term agricultural development. Work in this area should be speeded up.

### *The Adjustment of Foreign Economic Policies*

In recent years, foreign trade has come to account for a larger percentage of gross social output value than is the case in developed countries like the United States, not to mention other developing nations. Excessive foreign trade on this scale has caused the deterioration of the export mix and the export of some raw materials much needed at home and worsened the imbalance of the product mix on the domestic market. In view of the current economic situation, we should firmly bring down the volume of imports and exports to about 10 percent of gross social output value within 2 to 3 years. Failing that, major fluctuations in imports and exports are a likely prospect in the near future.

We should augment customs tariff work and the management of import and export licenses. We should also adjust exchange rates, something we have never found the resolve to do. In the short run, lowering the exchange rate of the renminbi militates against the fight against inflation at home and the effort to curb exports. But given the circulation of foreign exchange certificates and foreign currency inside China, lowering the exchange rate of the renminbi to restore order in domestic currency circulation is still a better alternative. The double-track system in exchange rates does even more harm than the double-track pricing system. As with the latter, the way to change it is to adjust official prices flexibly and reduce the differences between the two “tracks.”

On the foreign debt front, we are approaching the peak in loan repayment, so it is time for us to take foreign debt seriously. Foreign debt remains one thing that has been managed rather well. But institutional development in this area has been extremely poor. As domestic economic conditions change, the power to borrow abroad should also change constantly. If this continues, problems are bound to arise. Before enterprise management becomes separated from government administration, all foreign loans are in effect guaranteed by the central government. This state of affairs should be brought to an end as reform in other areas proceeds. Concerning the use of



foreign loans, we must further improve planned management so that they are used in key projects beneficial to the long-term development of the national economy.

*Strengthen Government Authority and its Social Management Function*

At present the revitalization and development of the Chinese nation is at a critical juncture. We can adhere to reform and establish a new socialist economic system and order. Or we can dissolve into chaos and postpone the goal of Chinese modernization by a generation. There is no third alternative. At this critical juncture, we particularly need an authoritative government with a high degree of managerial efficiency to exercise strong leadership. Otherwise, any sound policy will lose its practical significance. In this context, we cannot do without scientific and democratic decisionmaking. Nor can we put up with a situation in which orders are not enforced and prohibitions have no effect. To improve government authority and managerial efficiency, we must accomplish without delay the mission of political structural reform put forward by the 13th National Party Congress. Under no circumstances should we give up such reform. At the same time, bearing in mind the existing glaring problems, we should take feasible measures to beef up our drive for clean government.

To enable the government to exercise leadership effectively, a major concern is to substantially upgrade its social management function. Toward that end, we must genuinely weaken government's role as an owner, particularly its role of an operator in times of economic difficulties. The phenomenon of mayors and county chiefs directing economic management must come to an end. We must master the new methods of discharging government responsibilities under a commodity economy correctly. We must not retreat to the old practices as soon as we run into problems.

One of the major goals of strengthening the government's social management function is to preserve social stability and a normal social order. In this context, the most important concern is to crack down on robberies, murders, drug trafficking, corruption, bribery, commercial and industrial crime, blackmail, extortion, and other crimes that seriously endanger society. Otherwise, there is no way to ensure a normal economic order and social life, which would be a dereliction of duty on the part of the government. As for disaffection among social groups and strata caused by a variety of reasons, it should be diffused and resolved by strengthening the dialogue between government and people through regular democratic channels so that we achieve the objective of struggling for our great enterprise by uniting the whole people.

**Reform Through Rectification of Circulation Sector**

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[Article by Fu Linsheng 0265 2651 3932 and Luo Zhiyang 5212 2535 2254 of the Tianjin Municipal Commission for Restructuring of Economic System: "Rectification of the Circulation Order Is an Important Step in the Thorough Reform of the Circulation Sector"]

[Text] Improve the economic environment, rectify the economic order, and implement thorough reform—these steps are central to the general policy of reform and construction formulated by the 3d Plenary Session of the 13th Party Central Committee for this and next year. As the restructuring of the economic system enters the crucial transition period from the old system to the new, implementing this policy diligently is vital to the promotion of thorough reform of the circulation system and elimination of the chaos in the circulation sector and is conducive to the promotion of the continuous, steady, and healthy development of economic constructions.

I.

For the last decade, reform of the commodities circulation system has focused primarily on introducing the market mechanism and nurturing a market system which is compatible with the socialist public ownership system. We should affirm everything that has been accomplished so far in the back and forth reform of the circulation sector. Among the important breakthroughs are: We are no longer imprisoned by the theories of the product economy; many entrepreneurs are sharing the idea of developing the commodity economy, expanding commodities circulation, and actively participating in the market competition; state-run businesses no longer monopolize the economy, and instead of just one class of business in the circulation sector, we now have a pluralistic structure; the closed management style of the "three fixes" (fixed merchandise purchase channels, fixed marketing targets, and fixed pricing method) has been abolished, and in commerce and the purchase and marketing of commodities, state monopoly of purchases and sales have been replaced by diverse purchase and marketing methods; supply and marketing cooperatives are civilian-run instead of government-run, and they have expanded into a new territory and are offering more services and trying to smooth out their relationship with the peasants, and they have become service organizations indispensable to developing rural commodity economy; through microeconomic reconstructions, the circulation enterprises are no longer appendages of the government or the administrative departments and have become economic entities which have legal status, which are financially independent, which have the right to make autonomous business decisions, and are responsible for their own profits and losses; and finally, management of the circulation system is slowly making a



transition from direct management to indirect macroeconomic regulation and control. As a result of the reforms in the above areas, the circulation channel has widened, the core cities are playing a bigger role in commerce and in gathering and distributing goods and materials, the circulation capability has increased, circulation of commodities between the urban and rural areas is much freer. They have brought greater prosperity and promoted industrial and agricultural development.

## II.

A decade of reform has accomplished a lot, but we must not overlook the fact that as reform enters the critical transition period from the old to the new system, because of weak macroeconomic controls, the underdeveloped market, and the lack of standardization in the market, there is chaos in the circulation sector. The state of the economy clearly demonstrates that confusion in circulation is interfering with the normal cycles of the economy and is obstructing the normal development of the market mechanism. Specifically:

*Confusion in ideology:* Like the restructuring of the economic system, reform of the circulation system is marked by inadequate preparations in theory. The establishment of the planned commodity economy itself is a part of the probing into the reform process. Under the old system, the product economy is paired with a one-channel circulation system, and they are fairly compatible in that kind of economy. In a capitalist society, the commodity economy is served by multiple circulation channels, and that is a harmonious structure. Under the socialist public ownership system, do more channels in the market to circulate goods in a way compatible with the planned commodity economy necessarily mean a better circulation system? It would be difficult to prove one way or another in theory or practice in the early stage of reform. In the process of reform of the circulation system, we learned that the preliminary reforms were pushed through with this kind of muddled ideology and thinking, and the result is "workers, peasants, soldiers, students, businessmen, and everybody else are going into business," and every trade, every industry is dabbling in procurement and marketing. Thus, the historical progress of social division of labor is inundated by the current wave of business craze. Obviously, socialist greater production does not require that many channels. The old procurement and marketing system needs to be overhauled, but it does not imply that the more decontrolled the system, the more lively the market. Unmanaged and unlimited decontrol has already led to market chaos and improper flow of commodities. The above problems are problems of "quantity" and "degree." Failure to ascertain the proper "quantity" and "degree" will lead to procedural problems during reform. How many circulation channels we need should be determined by the different conditions and degrees of complexity of the commodity economy in different regions and how extensive the size of a specific region's business and market. As for the question of decontrol, even in capitalist countries, it is not a matter of abandonment.

When exploring the dual regulation of economic planning and the market mechanism, if we cannot effectively combine control and decontrol, that is, to have some degree of freedom amid control and some degree of control amid freedom, then as we enter the transition period, market disorder will be unavoidable. Enlivening enterprises is the core of the reform of the circulation system, but we must not think that by giving enterprises more power of self-determination, they will necessarily behave themselves. Today, because of the loose macroeconomic constraints, the circulation enterprises' own expansion mechanism and self-preservation mechanism are playing a more prominent role than intended, and they are often at odds with the ways of the macroeconomic elements. Thus, we must regularly adjust the profit allocation among the state, enterprises, and individuals. This proves, from a different perspective, that as we gradually decontrol the circulation enterprises and eliminate the administrative intervention, it is vital that we give play to the macroeconomic control mechanism and set up a stable macroeconomic control system as soon as possible. This is the key to the success or failure of the entire reform of the circulation system.

*Confusion in the links:* The wholesale link is particularly chaotic. Multi-channel operations which replace government monopoly of purchase and sales and the one-company wholesale system absolutely is not equivalent to multi-link operations. Fewer links in the circulation chain is what every circulation industry in any country ultimately would want as it pursues the goal of economic efficiency during the development of the commodity economy. But in the process of socialist greater production, fewer links in the circulation chain does not imply better; rather, we must have every necessary link and get rid of every unnecessary link (necessary links refer to the wholesale, retail, and intermediate circulation service links; unnecessary links refer to the multi-level wholesale and change of hands and so on.) In recent years, in order to enliven the circulation sector, we have begun partial reconstruction of the wholesale system. We have improved the wholesale structure and the wholesale-retail ratio and have modified the wholesale volume. These are essential steps. The important thing, as we make the above improvements in the circulation sector, is that we must bear in mind that its development must be consistent with, and should not be too far ahead of, the level of development of the domestic economy and the commodity production capability. Too much or too little wholesale capacity can undermine the normal cycles in the economy. Today, there are several problems in the wholesale link: one, the wholesale sector has expanded too fast and there are too many wholesale enterprises. Statistics show that in the early stage of reform, Tianjin Municipality had a little over 600 assorted wholesale enterprises; today, there are more than 7,700 of them, including industrial wholesalers, commercial wholesalers, joint government-business wholesalers, neighborhood collective wholesalers, and private individual wholesalers. Their growth has by far exceeded Tianjin Municipality's manufacturing capacity. Two, the wholesale trade is concentrated in relatively few commodities. The idea of enlivening the

wholesale link is to dredge the commodity circulation channels in order to facilitate swift and smooth merchandise circulation and move those commodities which have balanced supply and demand in the market or which have excess supply from the manufacturers to the consumers as quickly as possible. However, to the contrary, many wholesale enterprises, especially the assorted companies and centers that have opened in just the last year or two, are trying to make a profit by trading mostly commodities that are in short supply. The result is that commodities that really need to be circulated more swiftly are being stockpiled, and the tight supply of scarce commodities is getting even tighter. Three, there is wholesale trade at every level and there is a growing number of links in the circulation chain. Growth of the wholesale enterprises left unchecked naturally leads to their fighting over the supply of goods, and as a result, the limited supply of commodities is held up by the many wholesale enterprises. Many industrial enterprises have set up their own wholesale links to buy up goods other enterprises manufactured and resell them to other wholesale businesses. This makes the wholesale links even longer than the previous "three-step wholesale" chain and slows the circulation process, increases the circulation expenses, lowers the overall circulation efficiency, and raises the retail prices of certain commodities. Four, the wholesale trade likes to take a roundabout route. Too many wholesale enterprises disrupt the normal flow of commodities. Some commodities go through several wholesale loops before reaching the hands of the retailers; some merchandise are not available locally and have to be purchased from out-of-town wholesalers. This kind of backward flow of commodities has become fairly common in recent years.

*Confusion in operation:* This pertains particularly to the business operations. At first, the adjustment of the wholesale operation aimed to promote more multi-purpose businesses in addition to the already established specialized businesses. This would have a positive effect on enriching the market, regulating the product categories, and satisfying the needs of every social stratum. The problem is, with today's unlimited cross-operations, many wholesale enterprises are dabbling in just about everything. The businesses crisscross one another, get in each other's way, and end up in a big wholesale war. Moreover, the development of "retail-wholesale combinations" has gone unchecked. Many retail stores, whether they are equipped (including having the necessary business facilities, storage and transport capability, and financial ability) to handle wholesale business or not, are also hanging out a wholesale business sign. Many wholesale enterprises do not run a normal wholesale business. They circulate the products without moving them and reap a huge middleman's profit by reselling the goods at a high price. Furthermore, many wholesale enterprises ignore their main line of business and will do anything for a profit. For example, Tianjin Municipality has more than 2,000 enterprises in the chemical industrial products business which is a fairly profitable business and nearly 2,000

enterprises in the hardware business. Not only do many newly opened commercial enterprises get into the highly profitable wholesale trade but many retail departments and everyday service-type enterprises want to dabble in or switch to other businesses for a share of the profit. If this trend persists, not only will the trade structure be distorted but it will make life very inconvenient. In recent years, there have been fewer and fewer repair and service outlets. Bathhouses are being turned into shopping centers, barbershops are turned into clothing stores, and laundering and dyeing shops are turned into stock exchanges, and many repair shops are busy making business deals.

*Confusion in pricing:* State Statistics Bureau figures confirm that there was inflation in the first three quarter of 1988. Nationwide, the retail price indexes everywhere were above the 1987 level, and Tianjin's more than 15 percent increase was among the nation's lowest. According to Tianjin's Department of Statistics figures, clothing prices rose 18.2 percent and prices of other everyday and cultural goods climbed more than 10 percent. Prices of commodities under special control, newspaper and magazines, and pharmaceutical products increased by the widest margin. Some businessmen took advantage of the tight market supply and loopholes in the dual-track pricing system and engaged in profiteering. Moving the products through many links and raising prices at every level cause the prices of capital goods and manufactured goods to push each other onto an upward spiral, keeping prices high. Pressure-treated polyethylene should sell for 4,000 yuan a ton according to plan, but the market prices is as high as 10,000 yuan a ton; color TV rose from 1,370 yuan to 1,780 yuan, to 2,770 yuan a set today. In 1987, a 24-cm Shuangxi Brand pressure cookers sold for 54.70 yuan each and Tianjin-made pure wool blankets sold for 110 yuan each. After the raw materials for making aluminum products changed several hands, and because of the wool war, by 1988, retail prices of those two products have risen to 72.5 yuan and 170 yuan respectively, increasing by 33 percent and 60 percent. Widespread profiteering and market speculations in the circulation sector and multiple links in the circulation chain result in no materials or products being sold at parity prices, few at negotiated prices, and most at high prices. Prices which should have been set by the Administration of Commodity Prices are instead being set by enterprises themselves. Some set a large profit margin and others raise prices surreptitiously. Private operations and individual businesses ask exorbitant prices, the state, enterprises, and the consumers incur economic losses, and there is widespread panic over prices.

*Confusion in management:* Chaos in the circulation sector also creates confusion in management. First, we do not as yet have a unified management and regulatory department in the commercial sector. Usually, the better developed the commercial sector, the narrower the scope of management. Some government management departments only supervise the state-run enterprises and collectives (the old kind of collectives) and ignore private or

individual businesses, and so these newly sprung-up businesses are free to develop on their own. Second, laws and regulations pertaining to the market are imperfect. There are no uniform market laws, regulations, or exchange rules; also, there are no effective restraining measures. Economic legal entities in the product circulation business have no laws to follow, or they ignore whatever laws there are. Some units break through the crucial links by resorting to bribery and other non-economic means and illegally buy up scarce commodities and goods and materials outside of the normal channels and engage in hoarding and speculation and jack up commodity prices.

In addition, on the matter of policies, there are still many problems. There is a lack of coordination, and there are loopholes. In particular, in policies that promote the development of different trades, there is no uniform program and no coordination. With regard to pricing and taxation, unequal regulations pertaining to businesses of different economic ingredients and under different economic departments need to be sorted out and revised. The practice of burdening state-run enterprises and the old collectives with heavy taxes while the new collectives get away with little taxes and the private and individual enterprises get through the tax loopholes must be changed.

### III.

All the above problems in the circulation sector are attributable to socioeconomic as well as other factors—the most important being the excess social demand which far exceeds the total supply and chronic inflation and increasingly widens that gap between society's purchasing power and supply capability. Adding to these are the imperfect market mechanism, the inadequate market laws and regulations, the failure of party and government organs to run an honest government, and the failure of the judicial organs to enforce the law.

Putting the circulation sector in order is needed both as a part of the reform of the commodity circulation system and as a part of the thorough reform of the commercial circulation system. Today, behavior in the circulation sector has become increasingly deviant, which makes improvement and rectification even more urgent. Besides the state's effort to reduce basic constructions, control consumption, tighten credit, slow the economic growth, and so on, the emphasis of thorough reform, improvement and rectification should be on drawing up market regulations, promoting market development, perfecting the market system, and establishing a new order of commodity circulation as soon as possible.

1. We need to reduce society's total demand, strive to increase total supply, and gradually achieve supply-demand equilibrium in society. To re-establish order in the circulation sector, objectively, we need to improve the macroeconomic environment. China is only at the early stage of socialism. Her productive capacity is still

very underdeveloped. There are shortages of some commodities in the market. This economic situation not only requires opening up and stimulating the production sector but also requires reinforcement of planned macroeconomic control and regulation. Thus, we must stand firm on reducing the scope of basic construction and fixed asset investments, limit the issuance of currency, control the credit scale, check the increase in consumption funds, and divert the limited human, financial, and material resources to the nation's essential production facilities in order to increase the supply of key capital goods, the people's daily essential goods, commodities which are in short supply, and hot-selling products. This will help to stabilize the market and reassure the people.

2. We should sort out and clear up the assorted companies, particularly the companies and centers that have opened since 1987, and ban all circulation activities outside of the normal channels. While sorting things out and putting things in order, we should get rid of all the administrative companies that engage in illegal profiteering to reap exorbitant profit and eliminate all the intermediate links that try to jack up prices, reap exorbitant profits, and exact a cut of the profit at every level. We need to smooth out the wholesale channels, punish those who use their official power to reap personal gains, those who give or take bribes, who are corrupt and depraved, and those who transgress the law and violate discipline. All enterprises, units, and individuals in the commodities business or handle the circulation of goods and materials are subject to reexamination regarding their status as legal entities. Industrial and commercial management departments should reregister enterprises. They should check up on the wholesale enterprises with regard to their fund situation (including their registered capital and current funds,) their place of business, their facilities (including place of business, storage and transportation capability,) their management capability as legal entities, and their business achievements and social prestige and so on. The industrial and commercial departments should revoke the status as legal entities of enterprises that do not measure up. Circulation enterprises in the wholesale business run by assorted government and civilian organizations, neighborhoods, schools, public security and other nonprofit units should be abolished. Units and individuals (including state-run businesses and production enterprises) without the professional know-how and technological qualifications for handling capital goods and more technology-based commodities should not handle the wholesale or retail of those goods and commodities. We need to draw new limits to the wholesale business and encourage specialized wholesale operations and bring out their unique features. The distribution of comprehensive wholesale enterprises must be carefully planned and their number tightly controlled. Wholesale enterprises must not expand their operation at will. They must not deal with certain commodities just because they are in short supply, even less engage in speculation and profiteering. Industrial enterprises handling their own wholesale business are limited to the products they produce themselves;

they are not allowed to handle other manufacturers' products, nor are they allowed to let the products change hands more times and add new links in the circulation chain in the industrial system. Wholesale businesses that span several trades should be limited to handling products related to their prime businesses. Existing wholesale-retail combination enterprises and collective and individual wholesale enterprises should be reexamined. Those lacking the qualifications to handle wholesale may resume their retail business only, and their wholesale business rights should be revoked. Upon improvements and rectifications, reinstated or newly-opened network points should get approval from the commercial or goods and materials department before being issued new permits by the industrial and commercial management department.

3. We need to lay down market regulations, control and manage the different markets more closely, gradually perfect the market system, and facilitate the standardized conducts of the principal market entities. Market regulations refer to the rules which the major participants in the circulation sector must obey as they engage in commodity exchange activities in the market. These regulations should primarily be functional market rules, including commercial law, pricing law, contract law, trademark law, advertisement law, antitrust law and antiprofitteering law, and local provisional commercial rules and regulations. All these regulations and rules are different in content, but each should help constrained and market economic activities in different ways to gradually make the market exchange activities above board and rely more on legal tender and the transactions more standardized and institutionalized. We need to get rid of the noneconomic factors that are interfering with the normal circulation process. To give play to lawful market management, the auditing department should link up with the judicial and supervisory organs to put the business conduct of the assorted circulation enterprises within the confines of state laws and market standards, crack down on economic criminal activities promptly, guarantee the legal rights of people in the commodities business and of the consumers, and ensure the stability of the socialist economic order and market order. During the transition period, the commercial management departments and other comprehensive departments should also manage the agricultural capital goods market, the grain market, the steel market, and the nonferrous metals market, and other major markets closely, make sure that the exchange of capital goods which are crucial to the national economy and the people's livelihood and the exchange of the people's means of subsistence in the market are conducted properly, avoid aimless market regulations, and prevent economic volatility.

4. We need to sort out the product categories and organize their circulation according to the nature of the demands. Controlling the market is just empty words if we mismanage the products. As commodity production develops and the people's material and cultural lives

improve, supply and demand will change significantly in terms of quantity and composition. Setting up the circulation links according to the old classifications of the commodities is no longer compatible with the changed environment. We must reclassify the commodities. A few capital goods that are crucial to the national economy and the people's livelihood and some everyday consumption goods and popular items that help withdraw currency from circulation may be classified as state-controlled, state-monopolized products, and the state-run businesses and goods and materials departments may stipulate the necessary circulation links. Other units and individuals may not handle the wholesale business of these products and materials. As for the other materials and commodities, we can stipulate that some can be freely circulated, some are subject to circulation restricts, and others can be circulated between regions for mutual benefit and mutual aid by way of contracts. Consumer goods can be divided more finely into everyday necessities, discretionary products, and luxury goods. With regard to the everyday necessities and the more sensitive goods, we need to consider the market conditions and the consumers' ability to pay, and for a while (not too long a period of time), we can still rely on state and local subsidies. Discretionary purchases can be regulated by the market, but we must rely on a combination of decontrol and management to set a maximum ceiling price as well as a minimum protection price, so that prices are managed but not rigid and exchanges are lively but not chaotic. Luxury goods can be decontrolled completely, but we should control the number of business links and the wholesale-retail price differential and reinforce tax inspections to prevent price gouging and profiteering. Planned regulation and market regulation together constitute a complete dynamic process. We must grasp the dynamics of production needs and prices and make timely adjustments and continuously allow more product categories to be circulated freely.

5. We need to implement more thorough enterprise reform and give play to the guiding role of state-owned commerce and commodity business in the circulation sector. China's socialist commodity economy is built on the foundation of the public ownership system. The pluralistic ownership system of socialist commodity circulation upholds the public ownership system as the primary system. On that premise, we actively develop the individual economy, private economy, Sino-foreign joint ventures and cooperative ventures, and foreign-owned investments and other nonpublic ownership economic forms. This basic point mandates that state-owned commerce and commodity business play the lead role or act as the primary channels in the circulation sector. As we proceed to put the wholesale business in order and improve the wholesale channels, by implementing thorough enterprise reform, state-run commerce and commodity business and the supply and marketing cooperatives can perfect the enterprise competition mechanism and give play to their absorption, diffusion, transfer, gathering and dispersion capabilities

and rely on their solid economic strength and distinct economic efficiency to play a role in stabilizing the markets in the nation's vast cities and towns, bring prosperity to the market, halt the price increases, and guide the consumers, and promote production. At the same time, in order to protect their leading role in the market, we should further adjust the allocation relationship, revise the tax policy—especially the low-tax status of the state-owned commerce and commodity business—and we should pull all economic levers to strengthen tax collection, help the state-run businesses reverse their passive role and stop the erosion of their market share, and help the major participants in the circulation sector under the pluralistic ownership system develop in an orderly fashion amid fair market competition. To manage prices and monitor them more closely, the various price management laws and regulations must be enforced diligently, without discriminating between private and public enterprises and among different departments, and we must put an end to the situation of “decontrol without management and regulate without proper gauge.” Raw and processed materials under the “dual-track” pricing system should be delivered directly to the end-users by the production units, the processing department, and the goods and materials department according to plan without going through intermediaries which can divert the goods and make a big profit in the interim. We must stipulate the factory-exit prices, the wholesale prices, the wholesale-retail price differential, regional price parity, quality price differences, seasonal price differences, and the maximum price ceiling of the major capital goods and set reasonable fees for services and eliminate excessive charges. For commodities already decontrolled, we need to control the wholesale links, and if profiteering through reselling and excess price increases and price gouging are discovered, the offenders should be punished harshly according to market rules and regulations. Violation of law by those who are suppose to enforce the law should be punished severely.

In short, improvement and rectification create a better economic environment for reform; we are not backtracking. Meanwhile, only by implementing thorough reform of the circulation system can we lay down and perfect the market regulations, promote market development, perfect the market system, and establish a new commodity circulation order.

## PROVINCIAL

### New Head Appointed to Guangdong Economic Post

*HK1709050089 Hong Kong TA KUNG PAO in Chinese  
17 Sep 89 p 1*

["Special dispatch" by reporter Lin Ning 2651 1337: "Guangdong Special Zone Office Director Zhang Futang Yesterday Appointed Deputy Director of the Commission for Foreign Economic Relations and Trade"]

[Text] Guangzhou 16 September—Filled now is the vacancy of the director's office of Guangdong Commission for Foreign Economic Relations and Trade due to Xu Yunian's removal from the office for abusing power. As disclosed by some authoritative personality here, Guangdong Special Zone Office Director Zhang Futang was appointed deputy director, concurrently secretary of the party group of the Commission for Foreign Economic Relations and Trade not long ago. He took office today.

According to the procedures of appointment, the appointment of the director of the Commission for Foreign Economic Relations and Trade should be sanctioned by Guangdong Provincial People's Congress. Personalities here have calculated that the provincial government will officially submit the report on the appointment of the commission's director to the Provincial People's Congress for its deliberation, while Zhang Futang is the most likely candidate for the post.

Perhaps it was due to the fact that he had been engaged in geological work in his early years that Zhang Futang avoided appearing in public. According to his colleagues, Zhang is modest and strict at the same time, while he always shows respect for his subordinates. He is hard working and mentally alert.

Zhang Futang, who is 57 years old, hails from Ningpo, Zhejiang. Originally he was director of the Comprehensive Department of the Guangdong Commission for Planning. In 1983 he was appointed deputy director of the Commission for Foreign Economic Relations and Trade, and in August 1988, he was appointed Guangdong Special Zone Office director. Zhang Futang has rather rich experiences in work in relations with foreign economic relations and trade.

### Guangdong Official Urges Solving Economic Problems

*HK2009005989 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 19 Sep 89*

[Text] The provincial government convened a conference on economic work today. Vice Governor Yu Fei stressed in a speech this morning that from now on the people of the whole province must work in concert, base their efforts on the province's own resources, and rely on their own strength to overcome difficulties and develop the economy.

Yu Fei said that Guangdong's industrial growth declined somewhat from January to August this year, and the momentum of development became more steady. The early rice harvest was the third best in the province's history. The momentum of price increases has eased somewhat. The situation in financial revenue, bank deposits, and withdrawal of currency from circulation is very good.

However, due to the various contradictions that have accumulated in economic work over many years, Guangdong is facing a number of difficulties at present and the situation will remain grim during the fourth quarter.

Yu Fei proposed the main work arrangements for the next few months. The main thing is to strictly control prices. The average price levels from September to December should not exceed those of July. With the exception of the price increases announced by the State Council this year, no new increases will be tabled this year. We must cut investment in fixed assets and ensure a number of key construction projects in electric power, energy, and raw materials. We must resolutely punish corruption and step up the building of clean government.

### **Ye Xuanping Views Economic Situation**

*HK2309035389 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 22 Sep 89*

[Text] The provincial economic work conference concluded today. Governor Ye Xuanping and vice governors Yu Fei, Liu Weiming, and Zhang Gaoli were present.

In an important speech on the province's economic situation, Ye Xuanping said that in the 10 years of reform and opening up, thanks to the special policy allowed Guangdong by the state on advancing ahead of others, the province's strong points have been given scope, and we have scored outstanding achievements in developing the productive forces, reforming the economic setup, and improving living standards. However, we have now encountered difficulties due to economic overheating and excessively rapid development. Although we did some work in improvement and rectification in the previous period, we should not overestimate the results. We must make a sufficient estimate of the difficulties and establish the mentality of waging arduous struggle and tightening our belts for several years.

On the gains from this meeting, Ye Xuanping said that as a result of the meeting, everyone has enhanced understanding of the necessity of improvement and rectification. However, Guangdong has not yet met the State Council's demands on cutting investment in fixed assets, nor have we reduced this investment to the level that the province's economy can bear. The cities and counties must persevere in getting a good grasp of this work. Projects not covered by the plans must be halted.

Governor Ye also gave views on screening companies and launching a major inspection of finances, tax collection, and prices.

### **Shaanxi Leader Discusses Price Issues**

*HK1909031789 Xian Shaanxi Provincial Service in Mandarin 0030 GMT 19 Sep 89*

[Excerpts] Vice Governor Xu Shanlin yesterday reported to the 9th meeting of the 7th provincial People's Congress Standing Committee on the current state of market prices in Shaanxi. He said that according to the latest statistics, the increase in retail prices in August dropped to 19.4 percent, a fall of 3.3 percentage points compared with July. [passage omitted]

Xu Shanlin said that attaining the target of reducing the retail price increase by 3 percentage points from last year's figure remains a very difficult problem. The provincial government demands that all localities and departments further unify their understanding and work in concert to strictly control prices. They must also seriously implement the responsibility system for targets to be met in price control. The provincial government will publicly criticize localities and departments where control is ineffective and the control targets are not fulfilled well, and will hold responsible the leaders in places and departments where prices are out of control. [passage omitted]

## **FINANCE, BANKING**

### **Article on Banking Law**

*40060730 Beijing JINGJI RIBAO in Chinese 17 Aug 89 p 3*

[Article by Zhu Xiaohuang 2612 2556 7806: "A Few Issues Related to the Formulation of the Banking Law"]

[Text] Every law is based on some principle, and the letter of the law is the expression of its intrinsic spirit. Responsible departments are currently drafting the Banking Law. The purpose of this article is to discuss what principles ought to form the basis for the Banking Law.

#### **I. The Relationship Between the Central Bank and the Specialized Banks**

The key to the Banking Law is the relationship between the Central Bank and the specialized banks. This relationship could be conducted according to the following available models:

A. The specialized banks could be independent with respect to their organization and business operations, and be considered enterprises with the status of legal person, while remaining subject to regulation according to the policies of the Central Bank. The Central Bank would not be the leading administrative organ of the specialized banks and other financial institutions, and under normal administrative conditions would not have the power of administrative intervention. It could only use adjustments to monetary and loan policies to guide the activities of the specialized banks.

B. The organizational structure, style of management, and scope of operations of the specialized banks could be subject to Central Bank restrictions. The Central Bank could use some powers of examination and approval to intervene directly in the business operations of the specialized banks. However, the specialized banks would enjoy autonomy with respect to their accounting and daily business operations. This is what is known as the "guidance" relationship.

C. The Central Bank could be made the leading administrative organ of the specialized banks. The specialized banks would be branch organizations which form a part of the unified banking system under the jurisdiction of the Central Bank. They would carry out unified planning and management.

It is this writer's opinion that under the present conditions, the Central Bank, as the state organ in charge of monetary policy and administration, cannot be a direct producer of commodities. A bank is a special type of enterprise which deals in currency. It participates in the process of production and circulation of socialist commodities. The Central Bank, as a government organ, is incapable of performing this role. For one thing, if specialized banks are to be producers of commodities, it is prerequisite that they have autonomy to decide on their management style and scope of operation. Also, banks are special enterprises. Their business operations have a deep macroeconomic and microeconomic impact, thus Central Bank policy guidelines and administrative intervention under certain well-defined circumstances are indispensable. Therefore, the Banking Law ought to establish the relationship between the Central Bank and the specialized banks on the basis of the first of the aforementioned models.

## II. Relationships Between the Various Specialized Banks

For a long period, of the issues surrounding the specialized banks, three in particular have aroused a lot of debate. First, should there be a division of labor between the various banks? Second, should there be any overlapping between the operations of different specialized banks? Third, how should competition between specialized banks be evaluated? I feel that, in terms of legislation, the Banking Law should affirm two principles:

A. Overlapping operations within the context of division of labor. In a planned commodity economy, division of labor is a fundamental manifestation of the planned nature of the economy. The economic technicalities in every financial sector (agricultural loans, industrial loans, investment in capital construction, etc.) are different. Division of labor between banks is beneficial to their management. Furthermore, the process of historical development has already created a banking system with a rational division of labor. To break with the status quo would not be worth the cost. The term "overlapping operations" refers to the interpenetration by different banks, within the context of division of labor, into each

other's sphere of operations. This is, in fact, dictated by actual economic conditions. No economic activity takes place in isolation; rather, they have multiple links with other economic spheres. For example, the effects of investment in fixed assets will certainly extend to production activities after the construction project is completed, and will also affect the capability of People's Construction Bank to properly handle loans for industrial operating funds. It not only helps banks to recover loans, and but also benefits enterprise production. In addition, overlapping activities in agricultural and industry, and between the Renminbi and foreign currency, must necessarily be manifested as overlapping operations among banks. This kind of overlapping will not hinder the division of labor, but in fact will enable the advantages of the division of labor to be exploited more fully.

B. Improper competition between specialized banks must be restricted. Because there are overlapping operations, there must be competition. It must be made a legal principle to oppose improper competition. This is very important for maintaining normal financial order. In recent years, work units have gone to ridiculous lengths in the competition to attract savings, issue bonds, and deposits among enterprises. For example, some specialized banks, in order to protect their deposits, have prevented enterprises from exercising their legal right to withdraw their deposits and set up their own capital construction funds. These activities threaten the state's implementation of relevant policies. Both parties frequently come out losers as a result of improper competition, and the state is also harmed.

## III. The Issue of the Legal Status of Branch Organs of Specialized Banks

The legal status of branch organs of specialized banks is still unclear. The "Temporary Bank Management Regulations" stipulate that "all specialized banks are economic entities with independent authority over accounting." However, the term "economic entity" is not a legal concept and cannot provide a clear demarcation of the legal status of specialized banks' branch organs. For this reason, some work units and justice organs have refused to recognize the legal status of the branch organs of these specialized banks, and have not considered them qualified to sue the main banks. Some have even expressed doubts about the validity of loan contracts signed by branch organs of specialized banks. The Banking Law must provide a fundamental resolution to this problem.

There two factors affecting the legal status of specialized banks' branch organs: 1) The branch organs do not have their own organizational statutes. The branch organs have never been legally identified as independent organizations. 2) The manner of registration is also a factor. Because the operating funds of specialized banks are under the centralized management of the parent bank, they can be shifted around between different branch organizations. Because every bank's registration is under the unified management of the parent bank, branch



organizations can only register as organizations "without accounting autonomy." From a legal standpoint, this method of registration has turned the specialized bank into a group that is unified as one legal person. This has created a large hindrance to the independent management of the branch organs of specialized banks.

#### IV. The Legal Issue of the Conversion of Specialized Banks Into Enterprises

The conversion of specialized banks into enterprises is the major content and direction of financial system reform, and it should be raised to the level of legal affirmation. The Banking Law should deal properly with the following three issues:

A. The conversion of specialized banks into enterprises must not destroy macroeconomic control in the financial sector. The issue should not be oversimplified. The conversion of specialized banks into enterprises should not be interpreted to mean that banks will participate directly in the market, or that their management will enjoy complete autonomy. Under the socialist system, it must be emphasized that activities in the financial sphere are planned, and that they are connected to policy. As the conversion of specialized banks into enterprises is carried out, we cannot do away with compliance by specialized banks with the state's economic and policy guidance, and we cannot do away with administrative intervention by the state, under well-defined conditions where it is required, in the affairs of specialized banks.

B. The fact that specialized banks are tied to policy must not diminish their independent legal status. The guidance exercised by central government policy and the latitude of administrative intervention must be strictly held within legally defined limits. With respect to policy guidance, the Central Bank could guide the trend of specialized banks' business operations by changing the money supply, raising and lowering the discount rate, adjusting the required reserve ratio, buying and selling negotiable securities, etc. The Central Bank could carry out administrative intervention by means of credit planning, licensing of financial institutions, laws, and rules and regulations. It should not adopt an unbridled, anything-goes style of intervention or, worse yet, act as a leading administrative organ.

C. The contracting out of specialized banks must not be raised to the level of a legal principle. There are two reasons for this: 1) The contract system is a style of internal enterprise management which is subject to specific restrictions. Internal management conditions vary among different specialized banks, and they can choose from among many different styles of management, so the limitations of the contract system cannot be imposed across the board. 2) The intent of the contract system is to change the manner in which profits are distributed, which belongs within the bailiwick of fiscal policy. It would be more appropriate if the Banking Law did not address this issue.

#### Reporter's Notes Describe Financial Scene

40060744 Beijing JINGJI RIBAO in Chinese  
29, 30, 31 Aug 89

[Report by JINGJI RIBAO reporter Jiang Bo 1203 3134, "A Perplexing Situation and the Road That Has To be Taken—Notes From an Interview on the Financial Situation"]

[29 Aug 89 p 29]

[Text] Finally we can breathe more freely—throughout the country, during the period from January to June of this year, currency to the net amount of 5.294 billion yuan was withdrawn from circulation (during the corresponding period last year, 8.861 billion yuan of currency was put into circulation), savings by the general public increased by 64.4 billion yuan (during the corresponding period of last year, the increase had been 24.4 billion yuan), and various loans increased by 21.2 billion yuan (34 billion yuan less than increases during the corresponding period of last year). In the opinion of persons with authoritative views: "Improvement of the financial situation is better than expected."

A "better-than-expected" improvement of the situation does not at all mean that we can now sit back and relax. The banks, whose important function is to regulate and control the development of the national economy, still have several "knots" to untie, and we cannot be overoptimistic for the second half of the year. It is precisely as a high-ranking official of the People's Bank of China expressed it: "We can now only talk about the third quarter, and can't say anything about what it will be like in the fourth quarter."

Banks at all levels have exerted huge efforts to bring about this change from the issuing of currency, as it happened during the corresponding period of last year, to the withdrawal of currency, as it happened during the first half of this year. According to the regular pattern of the past (excepting last year), large amounts of currency are usually released during the second half of a year, of which a large portion will then again revert to the treasury during the first half of the following year. The amount of 5.294 billion yuan is not even half of the receipts during normal years, thus obviously much too little. Under normal conditions, deposits by the urban and rural population make up around 50 percent of the capital intake of banks, but during the first half of this year, the ratio was as high as 80 percent. In the 64.4 billion yuan of new deposits by the general public, almost 80 percent were deposits for 3 or more years at guaranteed constant value. Deposits at guaranteed constant value are of course of a certain stability and are advantageous for banks in their use of capital, but under the prevailing conditions of low interest rates for loans, the banks will not be able to tolerate taking in money at high interests and lending it at low interests, as this is bound to cause the banks huge losses, while failure to



guarantee constant value will, on the other hand, hardly attract deposits, and this is the point where the difficulty arises.

The fact that deposits by the general public are the main source of capital for banks clearly indicates that deposits by enterprises have declined, and that they are having a bit of a hard time. It also clearly indicates that consumption funds are growing too fast, and that the amount of money in the hands of the general public has greatly increased. According to a forecast by the Ministry of Commerce, surplus purchasing power of the entire society may reach 650 billion yuan. At present, the balance of bank deposits has reached 440 billion yuan, which means, that there are around 200 billion yuan in the hand of the general public. Will it be necessary to readjust distribution of national income to alleviate the problem of the state's shortage of funds? It is not that simple. The total payroll for staff and workers has admittedly risen 22.1 percent during the first half of this year, by far more than the 3.1 percent increase in productivity, but if we look at the magnitude of commodity price rises (25.5 percent), wages are still showing negative growth. Some economists have said that a somewhat rapid increase in consumption funds is the price that has to be paid for increased productivity. As long as commodity prices keep rising, consumption funds will increase, and more money will get into the hands of the general public, but in order to attract deposits, the method of guaranteeing constant value will have to be continued in future.

Main method for the treasury to retrieve money that is held by the general public is to offer easily marketable products in the marketplace. However, changes in the Chinese market are unpredictable, and people's consumption psychology is hard to figure out. According to reports, nationwide retail sales of social commodities during the first half of this year were 5.8 percent below those of the corresponding period last year, after fully discounting the inflation factor. Even 21-inch color TV sets, priced at 3,000 yuan each, which a few months back people were so eager to buy, are now, at the same price, languishing on the shelves and hard to sell. While second-rate quality, high-priced products were slow to sell in the past, sluggish sales are now also experienced in items usually in short supply, such as color TV sets, refrigerators, famous-brand cigarettes and liquor. According to some conservative estimates, at least 1 million color TV sets are now stocked at the factories and in stores throughout the country. Statistics show that up to the end of May of this year, the value of slow-selling manufactured goods in stock at industrial enterprises reached 114.1 billion yuan, 32.6 billion yuan more than at the corresponding time of last year, an increase of almost 40 percent. With capital originally already very short, tying up loans of circulating capital is really like one dilemma on top of another. There is now a loud clamor demanding reduction of prices for goods that are in short supply but for which there is strong public demand. That might not be the best policy, but without

coming up with some very effective device, the capital shortage will grow continuously worse. To have the general public defer consumption is ordinarily considered a good thing, as it can alleviate a disturbing supply-demand incongruity in the market. However, the large amounts of currency in the hands of the general public are like a "caged tiger," that is getting increasingly ferocious. It has to be either that we allow the people to hold currency for future purchases or that we guarantee the constant value of deposits; truly a difficult situation for the banks!

Capital shortage is not a matter that merely concerns the banks. In the face of continuous increases of consumption funds, and overall sluggish sales of social commodities, to what extent can the banks exercise regulating and controlling functions? Especially the slow improvement of productivity, and the expanding losses incurred by enterprises, are not problems that can be solved by issuing more or issuing less money.

The difficulties are real indeed, but we have to get on, so what road are we to take?

[30 Aug 89 p 1]

[Text] It is not clear since when it is so, but a man who lives on borrowed money has an untrammelled conscience, while the one who collects a debt or asks for repayment lives in fear and trepidation. When a lender wants to get his money back, he will always have to wine and dine the debtor, or even play mahjong with him, where, furthermore, he will have to lose and not to win...

The term "external cycle," which at one time had been widely debated, is no longer mentioned now. However, the chain of overdue indebtedness between enterprises has not been broken, but is becoming even tighter. Up to the end of March of this year, overdue debts mutually owed by enterprises nationwide have reached an amount of 108.5 billion yuan. This comprises only amounts controlled by the banking system. Some estimate that the total overdue indebtedness of enterprises nationwide is actually at least 200 to 300 billion yuan. This alarming chain of indebtedness has the enterprises weakened to the point of exhaustion and has cobbled progress of the entire economy. Yunnan tobacco is the "money-sprouting tree" for Yunnan's finances, but the cigarette factories owe 1 billion yuan and are owed 2.5 billion yuan. They have to start immediately to buy tobacco leaf, but have no money. The "maotai" liquor is famous throughout the land, but is now overstocked everywhere, so that distilleries, too, have no money to buy needed grain as raw material. In a certain grain-producing county of the Northeast, someone owes and is not paying the county 170 million yuan for purchases of grain. The whole agricultural banking business has now closed down throughout the county, and the county magistrate sits all day long at the provincial government... It seems not at all an exaggeration to say that if this situation is allowed to last another 1 or 2 years, barter trade will become universal in China.

Where did all the money go? That is really as mysterious as the "Bermuda triangle." Some say consumption funds have grown too fast, and that the money is all in the hands of the people. Others say it is the moneybags, the individual entrepreneurs, who pay cash against immediate delivery, that is where all the cash is. How is it that the nonpayment of due debts among enterprises has become so serious an affair? Some say the treasury owes too large a sum of money as loss subsidies, namely up to 17 billion yuan. Others say the banks are not strict enough in enforcing settlements of accounts and stand on the side of their customers in deferring the use of pressure. Others say that the widespread stagnant sales and overstocking of social commodities delays the return of currency to the treasury.

All these are facts, but they are superficial causes. According to the analysis of a veteran banker, the deeper cause for the serious defaulting by enterprises on their debts is the indecisiveness of our policy decisions, the fact that in macroeconomic respects there had been no "optimal alignment," and that there had been no thoroughly effective distribution of resources.

Even though there was a 5.5 percent decline in investments for fixed assets owned by the whole people, compared to the corresponding period last year, it was due to the fact that the retrenchment policy has not been firmly implemented that the capital gap in investments for fixed assets still remained that large. An investigation of 20 large machine building plants by the Industrial and Commercial Bank disclosed outstanding debts to the amount of 229 million yuan, among these 62 percent were investments in capital constructions and technological transformations which had not been completed. In case a certain enterprise has decided on a project that requires an investment of 10 million yuan, it will go ahead with it, as soon as its higher authority has approved it, even though it may have only 5 million yuan available. And what about the balance? They might as well borrow it, keep owing it, and default on it.

Presently, large amounts of social commodities cannot be sold and remain in stock, among these there is no lack of items that are marketable and usually in short supply, but most are high-priced products of inferior quality. Even though sales of these products are sluggish, it is still not possible to take the same action as during the economic readjustment of the 1960's and drastically close down, suspend, merge, and retool the producing enterprises. It is also not possible to have any of them go bankrupt, because who would feed all these people? As the products cannot be sold, and as, at the same time, production must be maintained, there is no other way but to live on borrowed money, and this the more so the more there is produced, and the more of these products are produced, the more products remain unsold, and as more remain unsold, more manufacturers will default on their debts. There is no way that the positive factors will come out on top of the negative factors—it is indeed a vicious circle.

Even if they belong to the state's "national team" of large enterprises, even if they are first or second-ranking in profitability, enterprises have no guarantee that their capital needs will be supplied, and what else is left to them but to default on their debts? As large and medium-sized enterprises have need for much more capital and are involved over a large area, the result is that they default more and more on their debts and default to the extent of a total impasse.

It has now become a matter of great urgency to find a way to break this chain of indebtedness, which is already seriously threatening the entire national economy. The People's Bank of China and the Industrial and Commercial Bank have decided on concentrating time and energy on the solution of this problem. To settle all overdue debts, the banks must provide some start-up capital to start breaking this chain of indebtedness. How much will be needed? Too little will not serve the purpose, and paying out 18 billion is an impossibility. To solve the widespread problem of defaults on due debts by the use of only a limited amount of start-up capital, it is in our opinion vitally necessary to firmly resolve to implement the state's production policies and clearly define which debts are to be settled and which are not to be settled, which are to be settled first and which may be settled later. At the same time as the indebtedness is being cleared up, it is necessary to readjust the economic structure. Unless this is done, it will be only a partial remedy, and will not solve the problem of long-standing overdue debts, but will rather immediately create new debts that will be defaulted. Past experiences have proven that a one-time settlement can alleviate the situation for 6 months to 1 year. In Shandong Province, mutual indebtedness among enterprises involved 870,000 establishments and a total amount of 14.48 billion yuan. They started to clear up first the debts of those large- and medium-sized enterprises that operate in conformity with production policies and that show good economic returns, with special attention being given to resolving the problem of "triangular indebtedness." They first used capital funds of the enterprises themselves, next they used funds from specialized banks, and finally the start-up funds provided by the People's Bank of China. Within 3 months, they cleared up debts amounting to 4.2 billion yuan. The municipality of Tianjin combined settlement of overdue accounts with the start-up of its economic machinery, adopting a method of "granting one loan and clearing up a whole string of debts." They used the 30 million yuan allocated to the Tianjin Steelworks under the name of the head office of the People's Bank to make separate loans to five steel rolling mills, following up each case and supervising the use of the money. The five steel rolling mills thereupon repaid their overdue 60 million yuan debts to the Tianjin Steelmill for goods received. In the first half of this year, they employed various methods to raise 1.1 billion yuan and settled enterprise debts amounting to 2.22 billion yuan.

Settlement of outstanding debts is not a matter that merely concerns the banks. The grain department of a

certain province owed a large amount for goods received. When the bank on its own initiative wanted to provide a loan for the settlement of the debt, they refused, and even the personal intervention of the deputy county magistrate could not bring about a settlement. Strange indeed! Anyhow, owing other people's money without having to pay interests, and no one who could force the enterprise to close down, why should one not keep it up that way?

This shows that settling overdue debts requires overall planning and coordination by governments at all levels, and it cannot be done without firm resolution to achieve a solution.

### [31 Aug 89 p 1]

[Text] Shortage of capital funds—this is a question that has the entire society interested. Under conditions of extremely strong demands by society, it will be impossible to resolve the situation within a short time. The question that has become very evident is: Do we want either an overall burst of prosperity, an overall upsurge, and overall retrenchments in periodic cycles; or do we want macroeconomic controls, overall retrenchments, development in key areas, and specifically directed investments. Our choice can only be the latter alternative, and this is what is now being done. However, if people see how almost daily ground is broken and structures are going up in increasing numbers in Beijing and other large and small cities for high-rise office buildings, commercial buildings, and guest houses, they will be able to judge whether curtailment of capital constructions is being effectively carried out. When we see how foreign products, such as cans with snap-off tabs, high quality clothes, and small sedans, still flow into the Chinese markets in an incessant stream, clearly, can people consider this kind of implementation of the retrenchment policy as satisfactory.

There are in the main two aspects to the so-called specifically directed investments and the development of key areas, namely: enhancing agricultural production and development of basic industries that will ensure sources of energy and raw materials. Banks are the levers for economic regulation and control, and their function is of considerable importance. During the first half of this year, the People's Bank has granted loans for specific purposes to the amount of 18.9 billion yuan, loans that were specific as to amounts, use, and time. At the beginning of the year, a special amount of 8 billion yuan was granted to accomplish purchases of grain at market-adjusted prices and to support spring cultivation. In March, 3 billion yuan were made available to the iron and steel, machine building, and textile industries. In April, another 3 billion yuan were provided for the procurement of commodities for export. In May, 5 billion yuan were made available for provisional regulation and control required in the process of procuring agricultural and sideline products, to prevent another occurrence of payments by IOUs. During the first half of the year, various bank loans were increased by 21.2

billion yuan, of which most went to the industrial bases of Shanghai, Liaoning, and Guangdong, the three localities taking up 36 percent of the entire country's allocation.

These measures played an important role in stabilizing the economy and preventing stagflation. However, in the face of very strong demand for capital, provision of these amounts of currency by far cannot solve all problems. In the overall view, the way this year's procurement of summer grain was conducted was essentially to the satisfaction of the peasants, but there are districts where payment by IOUs is still a serious matter. For instance, in Hunan Province, peasants did not receive cash, but merely IOUs. In Nei Monggol, peasants and herdsmen treated the IOUs as temporary currency and used them as such to some extent. There is an obvious shortage of capital for agricultural use. Although there is a constant call for specifically directed investments, the supply of capital for state-run large and medium-sized key enterprises is meeting with unprecedented difficulties. Because of shortage of capital, the Datong Mining Administration, which produces one-tenth of the coal of all unifiedly controlled coal mines, has not opened a single new shaft for 5 consecutive years. Because of a shortage of 500 million yuan construction capital and a debt of 550 million yuan, the Shengli oil fields have no money to buy various needed instruments and equipment. The famous Anshan Iron and Steel Corporation is, strangely enough, short of capital, and when the time comes, will rely on their staff and workers to raise capital...The country's "national team" has certainly fallen on hard times, even to such an extent that during the mentioned period of time, some 10 or so provincial governors have made special trips to Beijing to ask for emergency help.

Tightening money supply and instituting retrenchments are something that has to be undertaken with firm and unshakable determination. However, in every development there has to be a "proper measure" as determinant. As a foundation for our policy we have to consider the laws governing economic operations. Tightening money supply must be within appropriate measure; it must be done to have a favorable effect. We must recognize that under pressure of strong currency inflation, we have had to pay a certain price in economic developments for our policy of tightening money supply and retrenchments, and in logistics too, some deficiencies have become apparent. There has been a slowing down in the production of sources of energy and raw materials, such as iron and steel, coal, and petroleum, where the gap between supply and demand has widened. Basic establishments, such as railways, highways, and communications, are becoming increasingly inadequate, measured against the general development of the national economy. During the first quarter of this year, local investment projects have increased 14 percent, while projects of the central authorities declined 8.3 percent. In capital constructions, investments in electric power dropped 6.5 percent, investments in raw material industries dropped 9.7

percent, investments in transportation, postal and telecommunication services dropped 2 percent. During the first quarter, industrial growth was 10.4 percent, while industry owned by the whole people grew only 5.2 percent. The growth rate declined in particular for the large- and medium-sized key enterprises. Profits of state-run enterprises in the budget declined 14 percent, and the area of losses continues to expand. Although there has been some improvement in the second quarter, there is still no room for optimism. During the first half of the year, the state's 194 key construction projects were fulfilled to only 42.6 percent of the investment plan, due mainly to insufficient construction capital. Looking at the nationwide industrial trend, there is not only no inclination to specially support key industries that have a bearing on the national economy and the people's livelihood, or that support the logistics for economic development, but on the contrary, there is an inclination to favor industries that are not owned by the whole people, that show low economic returns, and toward increasing industries that are rather weak in providing effective supplies. Those that should be suppressed are not being resolutely suppressed, and those that should be preserved are not given all that is needed to preserve them. There is a certain connection here with China's currency policy.

People involved in these matters have therefore pointed out that we must tighten money supply in such a way that it will not harm production. In tightening of money supply there must be an element of suppression as well as an element of preservation, of loosening up, and of invigoration. In the regulation and control of capital, the banks must show an even stronger resolve to apply themselves energetically to the implementation of the state's production policy and to the adjustment of the credit structure. Under the premise of keeping the overall amount within controlled bounds, more capital must be made available to support agricultural production, to support foreign trade and exports, and to support the development of the large- and medium-sized key enterprises.

There is one question that requires further exploration: We are now making energetic efforts to curb demand and restrain high consumption, but in recent years we have already set up certain production enterprises that are involved in high consumption (or rather, enterprises that exceed the country's bearable consumption level). What are we going to do with these enterprises? Let us stop or limit their production, but what to do with those production lines for cans with snap-off tabs, video tapes, and air conditioners (mostly produced on imported equipment)? What is to be done about local and central finance (tobacco and liquor are frequently mainstay industries for local finance)? Let us permit and support production; however, will it have the effect of stimulating consumption and inflation? Should we give these enterprises loans? All these are problems faced by the banks and also by the decisionmaking agencies of the government.

## COMMERCE

### Inner Mongolia Expands Scale of Barter Trade

*SK2009122889 Hohhot Inner Mongolia Regional Service in Mandarin 1130 GMT 17 Sep 89*

[Excerpts] In early September, the regional people's government sponsored a 3-day barter trade coordination meeting in Beijing, with participation of responsible persons of governments from 10 provinces and municipalities, namely Beijing, Tianjin, Liaoning, Hebei, and Jiangsu; and made unexpected achievements.

At the meeting, the region signed agreements on barter trade involving more than 800 million yuan with 9 provinces and municipalities. Of this, the goods and materials exported by our region through barter trade reached more than 210 million yuan; and the goods and materials exported through barter trade totalled more than 590 million yuan. [passage omitted]

After hearing the report made by the regional government, State Councilor Chen Junsheng spoke highly of the trade activities.

Chen Junsheng said: Barter trade is a primitive method for exchange of goods. However, under the current circumstances, in which the localities generally have strains on funds, circulation has been blocked, and large amounts of goods are kept in stock, such a method for exchange of goods can be regarded as a flexible and effective way for tiding over difficulties.

He urged: Inner Mongolia should not only go out of the region to develop barter trade with other provinces and municipalities, but also organize such trade activities within the region so as to bring into full play the superiority of socialism through which the people can cooperate with each other, and make concerted efforts to overcome difficulties and enliven the economy.

### Shaanxi Retail Prices Rise

*HK0409085589 Xian Shaanxi Provincial Service in Mandarin 2330 GMT 1 Sep 89*

[Excerpts] According to a news release from a provincial work conference on prices which concluded a few days ago, the province's commodity retail price index from January to July this year rose by 27.4 percent over the same period last year, higher than the national average level. In particular, the prices of goods for everyday consumption increased substantially and the prices of some commodities were jacked up. [passage omitted] The commodity retail price indexes in Xian, Baoji, Xianyang, and Tongchuan rose by an average 28.7 percent during the same period and the growth rate in some cities exceeded 30 percent. Moreover, price control in rural areas is weak. The inflation rate in some small cities and towns was even higher than that in large and medium cities. [passage omitted]

## FOREIGN TRADE, INVESTMENT

### Zhang Futang Slated as Guangdong Trade Director

HK1809032189 Hong Kong HONGKONG STANDARD  
in English 18 Sep 89 p 6

[By Fan Cheuk-wan]

[Text] An experienced trade official, Mr Zhang Futang, is expected to be appointed director of the Guangdong Provincial Commission of Foreign Economic Relations and Trade in a move to boost foreign investment in the province.

A source close to the Guangdong provincial government said yesterday that 57-year-old Mr Zhang, director of the Office for Special Economic Zones, was about to be appointed.

Mr Xu Yunian, former director of the commission, was sacked early this month for accepting gifts and abusing his position.

Mr Zhang was deputy director of the commission until 1988 before moving to the Office for Special Economic Zones.

Mr Zhang was seen entering the commission's offices last week, the source said.

"Mr Zhang has wide experience in foreign trade. His expertise in business, and good connections with foreign investors will help improve Guangdong's situation," the source said.

Mr Zhang had been chosen in a bid to boost foreign investment in the province, the source added.

"Mr Zhang has experience in dealing with the three special economic zones in Guangdong and he will play an important role in restoring the confidence of foreign investors, especially Hong Kong and Macao compatriots."

According to procedure, the director of the commission must be approved by the Provincial People's Congress.

It is expected that Mr Zhang's appointment will be ratified at the next congress.

Meanwhile, the Governor of Guangdong, Mr Ye Xuanping, told a meeting of about 800 Hong Kong and Macao compatriots in Zhongshan at the weekend that "some policies" of the province would change.

However, he pledged that the open door policy would continue.

Mr Ye made the remarks amid speculation he would be transferred from Guangdong to Beijing in a major reshuffle.

It is said Beijing is considering promoting Mr Ye to vice premier but the governor is understood to have reservations about this.

Provincial officials want Mr Ye to stay in Guangdong as they support his reformist stance.

Following the crackdown in Beijing on 4 June, which hurt foreign investment in the province, Mr Ye said the government's policies towards Guangdong would remain unchanged.

"There are no grounds for change. The success of our economic reforms and open door policy in the past 10 years has demonstrated the correctness of the central policies," he said.

"The open door policy is correct and supported by compatriots in Hong Kong and Macao.

"It will remain unchanged in Guangdong."

Mr Ye said overseas investors had no worries about their personal safety while doing business in China.

"Everything in Guangdong is normal and the investment environment in our province is improving.

"We are also updating our communications network," he said.

However, he admitted the need for austerity programmes and readjustment of the overheated economy.

"Guangdong's economy has internal problems like inflation and excessive investment in infrastructure.

"It is necessary for us to make adjustments on the economic structure," he said.

"But our adjustment of price rises and excessive investment will not affect our open door policy."

### Trade Expanding Between Mainland, Taiwan

OW2009120989 Beijing XINHUA in English  
1103 GMT 20 Sep 89

[Text] Beijing, September 20 (XINHUA)—The volume of indirect trade between the Chinese mainland and Taiwan this year is expected to reach \$3 billion, according to today's PEOPLE'S DAILY.

The total indirect trade volume between the two sides was \$8.2 billion from 1979 to 1988, the paper said.

During the period, the mainland's exports to Taiwan totalled \$1.5 billion and its imports, \$6.7 billion.

In the period, the indirect trade volume between the two sides expanded at an annual rate of 48.6 percent, the paper noted.

**Guangdong Official Urges Closer Hong Kong Ties**  
*HK2109015989 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST) 21 Sep 89 p 1*

[By Kenneth Ko in Guangzhou]

[Text] The First Vice-Governor of Guangdong, Yu Fei, yesterday stressed the importance of maintaining economic links between China and Hong Kong and pledged to improve the province's economic environment for foreign investment.

Speaking to about 50 businessmen from Hong Kong, Japan, West Germany, Italy and the United States, Mr Yu described the links between Guangdong and Hong Kong, and Macao, as a relationship as close as "lips and teeth."

He said it was important to maintain these economic relations because the areas would only prosper on mutual dependence, support and development.

In an apparent move to allay overseas worries about future investment in China, Mr Yu stressed that the open-door policy would remain unchanged, adding that the country could not afford to change its established direction.

Since the Tiananmen Square massacre in June, overseas investors have taken a wait-and-see attitude towards future investments in the mainland.

Apparently, the Chinese Government is eager to boost the interest of overseas investors to continue or expand their businesses in China.

Mr Yu said the Guangdong provincial government would step up measures to help foster a better environment for overseas investments.

He said the government would spare no effort to eliminate red tape to facilitate foreign investments, and would ensure that there would be sufficient power supply.

He added that China was keen to attract more overseas Chinese from Hong Kong, Macao and Taiwan, as well as foreigners, to invest in the mainland.

Apart from urging closer link between Guangdong and Hong Kong, Mr Yu also warned Hong Kong people against intervening in China's internal affairs.

The priority of Hong Kong people's responsibilities was to maintain the territory's prosperity and stability which would benefit the well-being of China, he said.

He said each year Guangdong provided Hong Kong with export commodities worth up to \$5 billion and the province could provide strong support for Hong Kong's economy.

For the period up to last month, Guangdong recorded an increase of 21 percent in its industrial production, coupled with a substantial growth in agricultural production.

Mr Yu conceded that the growth of foreign trade could face a possible slowdown, partly because of the adverse effects arising from the student demonstrations in Beijing and the rapid rise of consumer prices.

But he still expects the province to achieve satisfactory growth for the coming year.

Meanwhile the Netherlands decided yesterday not to grant new export credits to China in protest against the massacre in June.

Foreign Minister Hans van den Broek and Overseas Development Minister Piet Bukman announced the decision in a written statement to parliament.

They said the Netherlands would fulfil its obligations for 195 million guilders (about HK\$690 million) of credits agreed before the crackdown.

**More Foreign-Funded Enterprises Approved**

*OW1409082889 Beijing XINHUA in English  
1447 GMT 13 Sep 89*

[Text] Beijing, September 13, (XINHUA)—The Beijing authorities have approved another 12 solely foreign-funded enterprises since the beginning of the year, bringing the total number to 19.

The 19 enterprises, with a total investment of \$13.86 million, concentrate mostly on inventing, producing or selling such high-tech softwares as calculators and electronic instruments. Only three of them are engaged in service.

An official of the Beijing Economic Commission attributed the "fast development" of solely foreign-funded businesses to the preferential terms provided by the municipal government.

"Such enterprises have greater decisionmaking power in hiring people and producing and selling their products," the official added.

Many foreign investors started their business here with a joint venture, according to the official. And after they gained profits, they invested the money in wholly foreign-funded businesses.

"I set up an electrical appliance company in Beijing, because I believe China's policy of opening to the outside world will not change," said general director of Singapore's Lucky Company, Chan Pak Wai.

In the past decade, a total of 528 projects with foreign investment have been established in the Chinese capital, involving contracted investment of \$4 billion.

### **Shaanxi Plans To Develop Export-Oriented Economy**

*OW1809032189 Beijing XINHUA in English  
0123 GMT 16 Sep 89*

[Text] Xian, September 16 (XINHUA)—Northwest China's Shaanxi Province plans to build a new export structure, featuring textiles, machinery and coal products.

This was revealed recently by its vice-governor, Liu Chunmao, at a seminar for heads of the province's major exporting factories.

The province's total export earnings last year topped \$600 million, of which \$248 million was earned by the province's 66 major exporting enterprises.

Liu encouraged the participants to make full use of the province's rich natural resources and skilled personnel, and enhance economic and technological exchanges and cooperation with their counterparts abroad so as to develop an export-oriented economy.

In addition, Liu said, preferential treatment will be given to major exporting factories in the supply of funds, energy and raw materials.

### **Trade To Increase With Arab Nations**

*HK2909002889 Beijing CHINA DAILY in English  
29 Sep 89 p 2*

[By staff reporter Wang Xiangwei]

[Text] China will increase its channels for expanding trade and economic relations with cash-rich Arab countries by paying high-level visits and establishing more joint ventures, CHINA DAILY has learned.

Zheng Tuobin, Minister of Foreign Economic Relations and Trade, is expected to pay a visit in mid-November to three oil producing Arab countries, Kuwait, the United Arab Emirates, and Iran.

Zheng has been invited to participate in ministry-level discussions on bilateral trade between China and the three countries, said Li Shuilin, an official with the Ministry of Foreign Economic Relations and Trade (MOFERT).

Zheng is also expected to discuss with Arabian officials the possibilities of launching joint ventures and signing a number of agreements in strengthening bilateral trade with those countries. Li, who is in charge of trade affairs with Arab countries, will accompany Zheng on his forthcoming visit.

"We take the Arab world as one of China's major markets with a vast potential to be tapped," Li said.

In 1988, China's total trade volume with countries in the Middle East was \$1.4 billion, 22 percent more than the figure in 1987.

China exported more than \$800 million worth of commodities to the Arab countries, while Arab countries exported to China commodities worth about \$400 million.

China's export items range from textiles to garments and light industrial products, as well as a small volume of mechanical-electrical products, while China imports from the Arab countries chemical fertilizers, oil, cotton, and leather products.

Saudi Arabia, Kuwait, Iran, and the United Arab Emirates are China's major trade partners in the Persian Gulf.

However, Li said that China's trade volume with the Arab countries only accounted for less than 1 percent of the total trade volume executed by those countries annually. Li estimated that the Arab countries' total of trade volume is valued at about \$180 billion annually.

Li said that except for their abundance of oil, those countries have to depend on large volume of imports to keep their economies going.

As a result, he said, MOFERT will strengthen its efforts to increase exports to those countries, particularly in the field of mechanical-electrical products.

He said at present, MOFERT has established more than 20 joint ventures and companies in those Arab countries to promote Chinese products.

He said MOFERT is also considering securing more investment from Arab countries to launch more joint ventures with Arab businessmen to produce chemical products needed in China.

## **ECONOMIC ZONES**

### **Construction of Minjiang Investment Zone**

*40060699 Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 29, 24 Jul 89 p 25*

[Article by Chen Yunshu 7115 0336 2885, reporter of our Fujian news office: "Fujian Establishes a Minjiang River Mouth Investment Zone—Interview with Hong Yongshi 3163 3057 0013, mayor of Fuzhou City"]

[Text] Recently, the State Council approved the establishment of investment zones at Xiamen, Fuzhou, and other places in Fujian Province to encourage investments by Taiwanese businessmen.

A few days ago, Mayor Hong Yongshi of Fuzhou City spoke to reporters on the tentative plan to establish a Minjiang river mouth investment zone. He said, the Minjiang is Fujian's main river; it flows through 34 counties and municipalities, and the area of its basin accounts for 60 percent of the whole of Fujian Province. The mouth of the Minjiang River at Fuzhou has for ages been the most important thoroughfare for Fujian's exchanges of commodities with overseas. In our ongoing preparations for the investment zone at the mouth of the

Minjiang River, we are relying on the economic and technological development zone of Fuzhou Municipality as foundation. Here, the state of communications is in excellent condition, and a first-class highway connects with downtown Fuzhou. The railway goes directly into the zone and is linked with the railway network of the whole country. It is 27 km from Fuzhou airport, which has 55 flights to 12 large cities, such as Beijing, Shanghai, Guangzhou, and Hong Kong. For sea transport, there are 6 berths in the harbor, two each for ships of 5,000 and of 3,000 tons, connecting with oversea ports of over 20 countries and territories, such as Japan, the Philippines, Singapore, and Hong Kong. Within the zone, there are 12 more places where berths for 5,000 to 20,000-ton vessels could be built, and at these places two 10,000-ton berths for coal and container shipments are already under construction. From here, it is only 149 nautical miles to Keelung on Taiwan, and if sea communications are restored between the two sides of the strait, this will be one of the most convenient points for the ensuing traffic.

Mayor Hong said, since the inception of the Fuzhou development zone 4 years ago, the state has invested almost 200 million yuan in it. The infrastructure of the zone is by now very complete; there are also 2,000 outlets of program-controlled telephones, allowing direct dialing to any place on the mainland, as also to over 100 countries and territories, such as Taiwan, Hong Kong, Macao, the United States, and Japan. As to power supply, there is now a 63,000 KVA main substation in operation and a 110,000 volt transmission line providing electricity for the zone. A gas-turbine power station with a 75,000-kilovolt capacity is available for emergencies and for peak load periods. There is across the river the Choudong thermal power plant of an installed gross capacity of 1.4 million kilovolt, of which, in its first stage, a 700,000 kilovolt generating unit provides electricity over a combined network with an annual output of 490 million KWH. The present waterworks have a capacity of 65,000 tons of water per day, while enterprises along the river can directly use the fresh water of the Minjiang River. There is an abundant manpower resource of comparatively high quality. The zone operates 1 vocational university, 2 vocational middle schools, 3 common middle schools, and 4 technical schools, with over 1,000 students graduating every year from these schools. At the same time, the development zone is planning the establishment of a high-tech industrial park, to concentrate mainly on the development of optical and electrical instruments, information devices, electronic technology, bioengineering, new materials, and other such lines of products, which can be offered to Taiwanese and foreign businessmen for investment and joint operations. Besides, the zone has also well established border protection, commodity inspection, quarantine service, postal and telecommunications services, banking service, transport and tally service for outgoing cargo, warehousing of export goods, bonded warehouses, wharfs, an international sailors' club, the Majiang Mansion, residential villas, office buildings with 24-hour work systems, all are facilities to provide excellent service to investors.

Mayor Hong said, there are now already over 90 industrial enterprises in the Fuzhou development zone, of which 35 have gone into production, producing last year an output value of 300 million yuan, and achieving a gross export value of \$40 million. Forty-four investment projects by foreign businessmen have been approved, and of these, 16 have already started up production. Their main lines of business are steel and iron products, nonferrous metal, plastics, stone and timber, aquiculture, shoe manufacture, electronics, and knitwear; altogether over 10 different lines. Among the mentioned projects involving foreign investments, nine are with Taiwanese businesses, of which five have already gone into production. As we understand, the economic returns are excellent in those enterprises with foreign investment which have already gone into production, achieving better than a mere balance in the state of their foreign exchange. Three enterprises have indeed already recovered the total amount of investments, and in 4 companies the board of directors decided to expand their investments.

In reply to a question about the developmental prospects and preferential policies in the Minjiang river mouth investment zone, Mayor Hong Yongshi replied that the said investment zone will develop rapidly from now on because it is backed by the district of old Fuzhou City and has the Fuzhou development zone as its foundation. If need arises in the various projects, the investment zone will be expanded in the future to include such places as Fengshan, Kuaian, Tingjiang, Guantou, Choudong, Culu Island, and Langqi Island. The investment zone will formulate regulations on the transfer of land use rights against remuneration, to encourage investors to develop one large strip of land at a time. Mayor Hong said, enterprises established in the Minjiang river mouth development zone will enjoy various preferential policies decreed by the state, taxation will be lighter, expenditures will be lower, procedures will be simpler, and there will be substantial legislation to guarantee the legitimate rights of the investors.

At the conclusion of the interview, Mayor Hong said with deep emotion: "We people on both sides of the strait are one family, the Fujianese and the Taiwanese are of the same stock." We welcome persons with breadth of vision from across the sea to come to Fuzhou to invest, and welcome particularly our compatriots from Taiwan to come for family reunions or to visit friends, to discuss trade, to invest and start businesses, thus to achieve the grand prospect by our joint efforts.

#### **Open Ningbo City Attracts More Foreign Funds**

*OW1809020389 Beijing XINHUA in English  
0030 GMT 16 Sep 89*

[Text] Hangzhou, September 16 (XINHUA)—Beijing-based foreign pressmen are showing great interest in the development of Ningbo, one of China's 14 open coastal cities, in East China's Zhejiang Province.



Twenty reporters from 18 countries arrived in the city Monday on a tour organized by the Chinese Ministry of Foreign Affairs.

Showing them round Beilun Port, Ye Cuihu, director of the Ningbo Port Administration, said the port is being built with a World Bank loan.

In the Xiaogang Economic and Technological Development Zone, the reporters saw newly-built workshops, residential quarters, apartments for sale, hotels, stores and warehouses covering an area of 270,000 square meters. More facilities are still under construction.

An official in charge of zone development told the reporters that this year the zone has concluded contracts to set up nine productive projects funded by foreign investors. Eight of them have gone into production. The zone now has 42 foreign-funded projects.

The Australian government intends to loan \$30 million to Ningbo to improve its telecommunications, the reporters were told.

### **Hainan Encourages Job Transfers**

*OW1909024089 Beijing XINHUA in English  
0647 GMT 18 Sep 89*

[Text] Beijing, September 18 (XINHUA)—Hainan, China's biggest special economic zone and newest province, has recently formulated regulations to encourage technical specialists to work in foreign-funded and rural enterprises and nongovernmental research institutes.

The CHINA YOUTH NEWS reported today that a personnel exchange service center will be established to help, for a fee, technicians transfer from state-owned enterprises and institutions to the private sector.

### **Shenzhen's Deputy Mayor on Economy, Foreign Trade**

*OW1809131489 Beijing XINHUA in English  
1130 GMT 18 Sep 89*

[Text] Shenzhen, September 18 (XINHUA)—Vice-Mayor Zhu Yuening said that Shenzhen's economy has witnessed a fast growth in the past eight months, despite the counter-revolutionary rebellion in Beijing three months ago.

Zhu made the remarks when he talked to visiting Japanese reporters last week.

While Beijing was suffering turmoil and rebellion earlier this year, he said, Shenzhen, one of China's four special economic zones, remained stable and all enterprises including foreign-funded ones worked normally.

He went on to say that the city's industrial output value for the past 8 months totalled 6.84 billion yuan, an increase of 32.9 percent over the same period last year.

The increase percentage is smaller than the corresponding figure for last year over the previous year, but, Zhu said, that is because of a bigger base and a shortage of electric power.

In regard to foreign trade, the vice-mayor disclosed that this year's import and export volume by the end of August had reached \$5.13 billion, an increase of 26.4 percent over the same period last year.

The export volume is bigger than the import volume, but the surplus is small, he added.

The vice-mayor also said the whole volume of utilized foreign capital has increased by a big margin, though the rebellion in Beijing may have influenced the negotiation of some projects.

He said 459 agreements for utilization of foreign capital had been signed by the end of August, involving \$344 million—13.9 percent and 30.2 percent up, respectively, compared with the same period last year.

In addition, he said tourism, which was most seriously affected by the rebellion in Beijing, has returned to normal.

### **Hainan Governor on Screening Companies**

*HK2009024989 Haikou Hainan Provincial Service in Mandarin 2300 GMT 19 Sep 89*

[Text] At a 19 September provincial meeting on further screening and straightening out companies, Governor Liu Jianfeng stressed that the focus in further screening and straightening out companies in Hainan is on abolishing companies being run by party and government organs, together with excessive companies in the circulation field engaged in wholesale business, foreign trade, material supply, and the handling of goods.

Governor Liu Jianfeng said that since the work of screening and straightening out companies in Hainan started at the end of October, we have unearthed a number of violations of law and discipline, abolished and amalgamated a number of companies, corrected some phenomena of lack of separation between government and enterprises and between officials and commerce, and helped certain companies to put their rules and regulations on a sound basis. A certain degree of success has been achieved in all this work. However, we are far from reaching the predicted results. We must therefore go further in screening and straightening out companies so as to eventually put economic activities in the province onto the right track.

Liu Jianfeng said that the work of further screening and straightening out companies is being launched in view of the excessive number of companies and the chaotic situation in this respect in the province. This is a political as well as an economic issue. Straightening out companies certainly does not mean that companies should not be operated; it is aimed at resolving the

problems that have cropped up in the companies, and thus running them still better.

He stressed that, on the basis of the screening and straightening out done in the previous period, we must focus on doing a good job in the following work: 1) resolutely abolish and amalgamate a number of companies; 2) seriously investigate and punish violations of law and discipline; 3) define afresh the operational scope of those companies that are retained after screening; 4) further resolve the problems of certain companies competing with government and enterprises for personnel, money, and materials; and, 5) put the companies' rules and regulations on a sound basis, to ensure their healthy development.

### Shenzhen Expands Use of Solar Energy

OW2109134789 Beijing XINHUA in English  
1053 GMT 21 Sep 89

[Text] Shenzhen, September 21 (XINHUA)—Solar energy is being increasingly used in Shenzhen, one of China's special economic zones, to take up the slack in the electric power supply.

A meeting on the utilization of solar energy was held here Wednesday to promote the use of solar energy. The meeting was told that, as the zone has rich solar resources, a plan has been worked out by scientific institutions and companies for using solar water heaters instead of electrical ones.

Scientists predict that if Shenzhen installs 100,000 sq m of solar water heating systems, the zone can get tens of millions kwh from the sun.

Already, a dozen hotels, companies and hospitals have installed solar water heaters and achieved good results in saving energy.

## TRANSPORTATION

### Shanghai Subway To Use U.S. Signal System

OW2109215189 Beijing XINHUA in English  
1623 GMT 21 Sep 89

[Text] Shanghai, September 21 (XINHUA)—A contract to import an American signal system for the Shanghai subway was signed here today.

All signal equipment and technology needed by the No 1 line of the Shanghai Subway will be provided by GBS [expansion unknown] of the United States and Shanghai Casco Signals Company, a Sino-American joint venture.

The CRSC [expansion unknown] Company of the Chinese Ministry of Railways will be in charge of the construction and installation of the whole project.

Funding for the No 1 line, which has the largest investment of any municipal utility project since the founding

of New China in 1949, will come from several sources. A loan of 460 million marks from the Federal Republic of Germany will be used to purchase the principal subway equipment including railway carriages, power supply system, and communication and remote control system under a contract signed with the West German-Shanghai Subway Group headed by Siemens AG [Aktiengesellschaft—FBIS] in mid-May this year.

Loans from France and the United States will be used to purchase giant tunnelling equipment and signal systems produced in those countries.

Preparations for construction of the 14.57 kilometer No 1 line, which will snake through the urban area, are underway. One subway station is already complete and four are under construction.

## AGRICULTURE

### Application of Recombinant DNA Technology

40060002c Beijing KUNCHONG XUEBAO [ACTA ENTOMOLOGICA SINICA] in Chinese No 3, Aug 89

[Text of English Abstract] The widespread application of recombinant DNA technology in recent years has provided great opportunities to revolutionize many areas of biological sciences. Entomology is one of these areas which can benefit in many respects. The relevant techniques have been used in both basic and applied research. On the one hand, they are new and more efficient ways to tackle problems of basic significance, such as insect development and gene regulation. Better understanding of these problems will certainly contribute to our knowledge of the nature and functioning of the insect organism and in improving the potential and performance of beneficial insects. On the other hand, they afford promise of success in enriching the arsenal for fighting pest insects. Possible applications in pest control discussed in this paper include genetic engineering of insect pathogens, such as *Bacillus thuringiensis* and baculoviruses, genetic improvement of natural enemies, novel genetic control strategies and genetical manipulation of insect neuropeptides.

### Shandong Livestock Production

40060002d Jinan DAZHONG RIBAO in Chinese  
29 Aug 89 p 2

[Summary] During the first half of 1989, the number of hogs in stock in Shandong Province totaled 16,650,000, a 4.2 percent increase over the same period in 1988; the number of cows in stock totaled 4,310,000, a 16.7 percent increase; and the number of lambs totaled 19,206,000, a 22.3 percent increase. Gross output of meat was 830,000 tons, a 20.5 percent increase over the same period in 1988; gross output of eggs was about 500,000 tons, a 5.5 percent increase; and gross output of dairy products was 124,000 tons, an 11 percent increase.

**Qinghai Agricultural Taxes***40060002e Xining QINGHAI RIBAO in Chinese  
20 Aug 89 p 1*

[Summary] Recently, the Qinghai provincial government issued provisional agricultural tax regulations. The tax rate on income derived from apples is 15 percent; the tax rate on income derived from pears, grapes, melons, and fresh water fish breeding is 10 percent; the tax rate on income derived from timber is 8 percent; and the tax rate on income derived from other agricultural and forestry products is 5 percent.

**Hebei Supports Hog Prices During Seasonal Glut***900H0016b Shijiazhuang HEBEI RIBAO in Chinese  
22 Aug 89 p 2*

[Article by Guo Dinghong 6753 1353 1347: "Provinces Sees Results in Preventing a Slide in Hog Output; Reliance on Policies To Steady Hog Production and Marketing"]

[Text] In order to stabilize hog production, Hebei Province has diligently summarized the lessons learned from the great ups and down in hog production resulting from many years use of preferential policies that stressed production and marketing when hogs were in short supply, and the lowering of grades in order to force down prices when hogs were numerous that made it difficult for peasants to sell them, taking actions to stabilize production and sales. Recent survey data show that 12.22 million hogs in inventory throughout the province, 943,000 of which are stud hogs and brood sows, and 2.264 million of which are shoats. This is 6.3, 24.3, and 18.8 percent more than during the same period in 1988.

At the end of 1988, the Hebei Provincial Department of Commerce organized forces for the widespread collection of data about production areas in the province and the country as a whole. As a result, it clearly realized that now that hog production has recovered, a new slide is quietly approaching. In view of the possibility that problems may occur, it has taken a series of policy actions to stabilize hog production.

A policy of steadily building hog production base counties: Early in 1989, the province sent work teams to the 43 hog base counties built during 1988 to spot check the status of construction, to propose actions for strengthening the building of base counties, and to reiterate that there will be no change in the various preferential policies with regard to base counties. This has gone far in preserving the enthusiasm for hog raising of the base counties.

A stable price policy to prevent the depression of prices, which hurts the peasants: Since the beginning of June, the seasonal conflict between production and marketing of hogs has intensified, quite a few grassroots level units taking the opportunity to force down procurement prices. In order to safeguard peasant benefits from hog raising, the provincial department of commerce

promptly contacted units concerned, issuing an emergency circular notice throughout the province on "stabilization of hog procurement prices to safeguard hog production," which unequivocally set the price cities were to pay for live hogs at no less than 1.80 yuan per 500 grams, and that the live hog procurement price at the county level and below could be no less than 1.60 yuan per 500 grams. All excess profits deriving from a lower price being paid for hogs in violation of this regulation would be confiscated in full. These policy provisions played a positive role in stabilizing live hog procurement prices. As of mid-July, live hog procurement prices throughout the province rose to 1.63 yuan from the 1.52 yuan per 500 grams in mid-June.

Institution of preferential policies in providing funds for hog procurement. The provincial government ruled that government and banking units at all levels were to give priority to funds for hog procurement. Approximately 150 million yuan was needed to put 600,000 hogs in storage throughout the province, virtually no IOU's being issued. In order to insure the availability of cash to purchase hogs in implementation of the province's plans for a reserve of 110,000 hogs, the provincial food company invested its entire 3 million yuan of working capital in hog procurement, and borrowed another 5 million from the Department of Commerce. They also obtained the support of banking units in all jurisdictions thereby fairly well assuring funds for the province's pork reserves.

Stabilization of procurement prices. After the provincial department of commerce analyzed the seasonal conflict between hog production and marketing, it decided to open the door fully for the sale of hogs so that peasants would not feel it was difficult to sell hogs. In this connection, at the end of 1988 the provincial Department of Commerce resolutely decided to dump pork supplies in storage, lowering the number of hogs in storage from 450,000 to 190,000. During the past several months, provincial food departments increased the amount of pork in storage throughout the province while moving out supplies on hand through many channels. They both expanded the volume of local sales and made many contacts for shipments elsewhere. They signed advance procurement agreements with nonbase counties having a strong seasonal conflict between production and sales, and they mobilized the peasants to delay sales of hogs to the province, insuring them a procurement price no lower than 1.60 yuan [per 500 grams]. This went a long way toward easing the seasonal conflict between production and sales.

**Qinghai Grassland Deterioration 'Worsens'***OW1109071189 Beijing XINHUA in English  
0537 GMT 11 Sep 89*

[Text] Xining, September 11 (XINHUA)—The deterioration of the grasslands in Qinghai Province, northwest China, is becoming increasingly serious, a recent investigation shows.

According to the investigation, from 1950 to 1986 the area of new deserts and deteriorated grasslands in the province has reached 7.3 million ha or 19 percent of the province's total natural grasslands because of over-reclaiming, unchecked cutting of sand-fixing plants, scraping of turf for digging gold and over-grazing of winter-spring pasture land.

Since the beginning of gold panning in the province in 1985, nearly 1.07 million ha of grasslands have been destroyed.

From 1958 to 1960, more than 380,000 ha of winter-spring pasture land was converted to farmland; however, because of a shortage of rain and low temperatures, people have had to give up cultivation and return the land to pasture, the vegetation in those areas has still not recovered, and a large part of it can no longer support grazing.

With the construction of towns, factories, highways and railways, large areas of sand-fixing plants have been cut because of the shortage of fuel. In the Qaidam Basin, Gonghe Basin and some other districts, all the sand-fixing plants have been cut within a radius of 15 km around residential areas, causing serious desertification of grasslands.

Since 1983 when livestock and the land use rights of the grasslands were allotted to individuals, some herdsmen have avoided herding their animals in the summer-autumn pasture lands, which are primarily situated in areas with bad climates and poor transportation; instead, they stay in winter-spring pasture lands throughout the year, causing serious deterioration.

The grasslands in Qinghai Province have also been seriously harmed by rats and insects. Although efforts have been made since the 1960s, rats have damaged 3.81 million ha of grassland and another 200,000 ha of grassland has been harmed by insects. Every year as many as 4.4 billion kg of forage grass is destroyed by rats, equal to one year's forage for 3 million sheep.

Stronger measures will have to be taken if the grasslands are to be preserved. The investigation shows that at present the usable area of natural grasslands in Qinghai Province is 31.61 million ha, while only ten years ago the area was 33.45 million ha.

### **Zhejiang Promotes Winter Crop Production**

*OW2609124989 Hangzhou Zhejiang Provincial Service in Mandarin 0900 GMT 14 Sep 89*

[From the "Provincial Hookup" program]

[Summary] The provincial Planning Commission, the provincial Economic Commission, the provincial Agricultural Department, the provincial Grain Bureau, and the provincial Commodity Price Bureau recently issued a joint notice on the province's winter planting plan for this year.

The notice said: This year's winter planting plan covers 23.33 million mu, an increase of 890,000 mu as compared with last year. It represents a 90 percent land use for winter season.

To ensure the fulfillment of this year's winter planting plan, the notice called on all cities, prefectures, and counties to step up their leadership over winter crop production and to make sure the plan is fully carried out by all means. Governments and agricultural departments at all levels must give top priority to winter crop production and make fulfillment of the winter planting plan one of the criteria for evaluating the performance of their subordinates. They must implement the economic policies pertaining to winter crop production as early as possible, so as to set farmers' minds at ease.

### **Cotton Mills Readjusted for Cotton Shortage**

*OW2209045389 Beijing XINHUA in English 0239 GMT 22 Sep 89*

[Text] Beijing, September 22 (XINHUA)—China is planning to readjust some of its textile mills due to the shortage of cotton, today's CHINA DAILY reported.

According to the plan, textile mills still in the blueprint stage should not be built. Those run by individuals, family coops, villages and townships must be closed.

Those with outdated equipment which produce poor-quality goods must also be shut down, the paper said.

To ensure the fulfillment of their supply quotas to the state, cotton producing areas should close some of their mills.

Meanwhile, those that are allowed to continue production should operate in accordance with the state plan.

One of the important reasons contributing to cotton shortage is the successive years of production decline. In 1984, the country purchased 6 million tons of cotton, setting a record. However, in the following 4 years, the annual average was only 3.5 million tons, a drop of 41.6 percent.

In addition, many textile mills operating outside the state budget have been set up by local authorities, causing serious shortage in supply.

From 1980 to 1984, cotton output increased steadily, creating a large stockpile. Expanding consumption was used as the main method of keeping production steady.

At the same time, textile products found a good market overseas, the paper said.

However, the situation has deteriorated with higher demand and falling supplies since 1985. In 1988, a total of 5 million tons of stockpiled cotton from the preceding years were used up.

This year, the cotton production average is estimated at about 5.13 million ha, 330 thousand ha fewer than last year.

Besides, poor cotton quality and serious diseases have made it more difficult to fulfill the state cotton purchase plan this year.

### Hangzhou Opens Paddy Rice Research Institute

OW2909055089 Beijing XINHUA in English  
0129 GMT 29 Sep 89

[Text] Hangzhou, September 29 (XINHUA)—A paddy rice research institute has been set up in this east China city.

It has become the country's biggest institution for agricultural research.

The total investment of the project amounted to 69 million yuan (\$18.6 million). The United Nations Development Program (UNDP) offered an aid of \$400,000.

The institute now has over a hundred senior researchers. It has also invited many well-known scientists from both home and abroad to be its part-time research fellows.

The institute will concentrate on research in both basic and applied sciences. It will collect, store, and improve rice strains, study ways to raise output and quality, organize domestic and international exchanges in the field, and compile academic and theoretical magazines.

Rice is a major grain crop in China. Its output accounts for 44 percent of the country's total grain output and its sown area accounts for 30 percent of the total grain acreage. About half of China's population have rice as their main food.

### Livestock Feed Production, Management

40060636 Beijing DANGDAI ZHONGGUO DE  
LIANGSHI GONGZUO [CHINA TODAY: FOOD  
GRAIN] in Chinese 1 Feb 88 pp 370-387

[Chapter 10: "Feed Production and Management" from the book *Dangdai Zhongguo De Liangshi Gongzuo*; Deng Liquan, Ma Hong, Wu Heng, chief editors]

[Text] Livestock feed is the material basis for animal husbandry. Development of livestock feed production and good performance in supplying livestock feed holds important significance for development of animal husbandry production, improving the people's livelihood, and gradually changing the people's diet. Livestock feed work is an important aspect of the work of state grain departments. The emphasis of this work varies at different times. Up until 1975, grain departments' livestock feed work consisted mostly of supplying livestock feed grain, serving traditional means of raising livestock. Following the 3d Plenary Session of the 11th Party Central Committee, grain departments began to build blended livestock feed industries and livestock feed machinery manufacturing industries. At the same time,

they actively developed scientific research on livestock feed, gradually instituting professional management. By 1984, grain department livestock feed production began to take shape, laying a preliminary foundation for subsequent development of the livestock feed industry.

### Section I—An Overview of the Feed Industry

#### 1. The Rise of the Feed Industry

Following the founding of New China, up until 1978 the livestock feed work of grain departments consisted mostly of taking good care of and using livestock feed grain well, emphasis being placed on the following several tasks:

1. Working with production teams to keep and make good use of livestock feed grain. When grain was distributed, rural production teams kept grain for livestock feed according to standards for the retention of crops that governments in individual jurisdictions prescribed. Grain departments sent people to work with production teams to plan, to implement plans production team by production team, and to keep sufficient grain for livestock feed. Grain departments also checked and supervised control over livestock feed grain, insuring that grain needed to raise livestock was properly allotted as required.

2. Supply of livestock feed grain and grain byproducts such as chaff and bran. Grain departments supplied livestock feed grain and byproducts such as bran and chaff in accordance with monopoly sales policies to state-owned and collective livestock farms in suburban areas and in medium and small cities and towns, for stud animals raised by agricultural departments in charge, for draft animals used by city and town transportation units, for experimental animals in scientific research units, and for show animals, performing animals, and exhibition animals, as well as for commodity livestock and poultry raised by military units, government organizations, industrial plants and mines, enterprises, and institutions. Award sale livestock feed grain that commercial units needed when purchasing live hogs, as well as livestock feed grain needed when live hogs they purchased were being transported or were being held in pens awaiting transportation, was also provided by grain units according to regulations.

3. Coordination with agricultural units to get the masses to plant and use green and coarse fodders, and to dispense and promote the use of high yield premium quality green feed seeds; cooperation with production teams in planning and allocating land to grow livestock feed, and to grow aquatic livestock fodder such as water cabbage, water hyacinths, water peanuts [*Alternanthera philoxeroides*], and duckweed; producing various kinds of yeasts to promote production of fermented livestock feeds; and processing chopped coarse fodders for agriculture.

4. Administration and distribution of leftovers from brewing and fermentation industries and from non-staple food factories that use grain as raw materials. Residues from bean product manufacturing plants and flour mills, and sediments from soy sauce, vinegar plants, distilleries and breweries should be managed and distributed for use as livestock feeds.

5. Organization of the delivery of swill to the countryside. Livestock units in some large and medium sized cities organized stations for the support of agriculture to collect slop and leavings from hotels, restaurants, and beverage firms, as well as vegetable scraps that city and town residents disposed of, which they provided to suburban livestock raising industries.

These activities of grain departments played a very large role in promoting development of the country's livestock raising industry at the time.

The livestock feed industry was founded on the development of modern science and technology in order to meet the animal husbandry industry's need to raise large herds and flocks. It has been in existence for nearly 100 years in foreign countries. Data from foreign countries show a marked increase in the livestock return rate (utilization rate) as a result of the use of blended livestock feeds to feed livestock and poultry.<sup>1</sup> For example, in the United States the amount of feed needed per kilogram of weight increase fell from 5.6 to approximately 3 kilograms for hogs, from more than 4 to approximately 2 kilograms for chickens, and from more than 5 to approximately 2 1/2 kilograms for laying hens. This shows that the scale and speed of development of the modern livestock industry has resulted, to a very large extent, from the production and supply of blended livestock feeds. This also shows the extremely important significance of livestock feed work in promoting development of the livestock industry.

China's livestock feed industry got off to a late start, beginning only during the 1970's. There were two reasons for this:

First, was the longstanding short supply of grain. Neither the amount of grain that rural villages kept nor sources of grain under state control were ample. Development of a livestock feed industry was very much limited by the supply of grain. Insufficient research on livestock feed nutrients, the development and use of various livestock feed resources, and the economic benefits to be gained also adversely affected development of a livestock feed industry.

Second, livestock and poultry raising have always been a family sideline occupation in China's farflung rural villages. It has been small scale, decentralized commodity production by individual families and households. Animals have been raised haphazardly, being fed whatever was available without concern for nutrition. Such a method of livestock raising also adversely affected development of the livestock feed industry.

In September 1975, the CPC Central Committee issued a circular notice on energetic development of hog raising, which called upon grain departments at all levels to bend efforts to administer livestock feed, and livestock feed processing and supply. Following this notice, grain departments in some provinces and municipalities under direct central government jurisdiction established livestock feed companies, and began to build some specialized livestock feed processing plants. The Nanyuan Blended Livestock Feed Plant in Beijing and the Shanghai Livestock Feed Plant were built at this time. Once these two feed plants were built, their products very quickly found markets. Promotion of the results of trial feeding showed blended feeds genuinely able to increase livestock feed returns, lower animal raising costs, shorten feeding times, and increase both outputs and meat outturn rates, playing a model role in development of the livestock feed industry. In 1978, the Ministry of Commerce founded the Livestock Feed Bureau and issued a circular notice throughout the system calling upon all jurisdictions to bend efforts to the development of livestock feed.

Following the 3d Plenary Session of the 11th Party Central Committee, when the country had bumper grain harvests year after year, the demand of both city and countryside residents for meat and egg products became greater and greater. Leaders of the CPC Central Committee and the State Council devoted extremely great attention to livestock feed work, several times proposing the establishment of a livestock feed industry. With the rise of mechanized and semi-mechanized raising of hogs and chickens, a modern livestock feed industry was established and developed in China. By the end of June 1980, grain departments had built 79 livestock feed mills having a 620,000 ton production capacity.

In July 1980, the Ministry of Grain convened a conference for the exchange of experiences in building the livestock feed industry. The conference endorsed some of the fine methods that various jurisdictions used as follows: use of grain processing plants not having sufficient production quotas, and use of surplus open spaces and facilities for the renovation or expansion of livestock feed plants; suiting of general methods to local situations in doing overall planning to make a rational pattern of plant distribution that included a combination of large, medium, and small plants, medium and small plants predominating; and planned, step-by-step development of livestock feed raw materials industries simultaneous with development of the livestock feed processing industry. The "Report on Active Development of Rural Economic Diversification" from the State Agricultural Commission, which the CPC Central Committee forwarded in March 1981 noted: "Special emphasis should be given in the future to the building of a livestock feed industry, to making full use of all agricultural and animal husbandry byproducts, and to increasing livestock feed utilization rates to enable the country to produce more products from limited livestock feed." Acting in this spirit, some provinces, and some municipalities under

direct central government administration convened conferences on livestock feed work, which summarized experiences, made work plans, formulated development plans, and proposed implementation measures. By the end of 1981, more than 350 blended and mixed livestock feed processing plans having a production capacity of more than 1.5 million tons had been built or renovated, and some small additive plants had also been built.

In April 1982, the Ministry of Commerce convened the All-China Grain Departments Livestock Feed Work Conference, which summarized and exchanged experiences in livestock feed work, discussed the main problems requiring solution in carrying out livestock feed work, and made plans for development of the livestock feed industry during the Sixth 5-Year Plan period. It set a development goal of a grain department livestock industry having a more than 5 million ton production capacity by 1985. The conference asked that all jurisdictions develop pre-blended livestock feeds, concentrated livestock feeds, livestock feed additives, and various kinds of livestock feed raw materials while continuing to develop mixed livestock feed and blended livestock feed processing industries. It called upon them to improve technology and equipment, to increase output, improve quality, gradually diversify products, make formulas scientific, and standardize quality, the country's livestock feed industry thereby gradually becoming a fairly complete system. The conference also called on livestock feed companies at all levels to work with township and town commune and brigade enterprise administrative units to support rural communes and brigades with guidance on techniques, equipment, and formulas for the building of livestock feed industries. Following this conference, the grain department livestock feed processing industry developed rapidly, its production capacity increasing by nearly 2 million tons each year. By the end of 1984, 2,425 livestock feed plants of various kinds had been built. These plants had a 7.18 million ton production capacity, employed 61,561 staff members and workers, produced and sold 6.85 million tons of feed having an output value of 2.35 billion yuan (figured in terms of constant prices). Quite a few provinces, autonomous regions, and municipalities under direct central government jurisdiction shaped a preliminary livestock feed production and administration network, thereby taking a heartening step in the development of the livestock feed industry.

The "1984-2000 National Program for Livestock Feed Industry Development (Trial Draft)" from the National Economic Commission, which the State Council Office forwarded in December 1984, said that, "vigorous efforts must be made to develop the livestock feed industry, operating it as an important newly emerging industry. Full use should be made of existing livestock feed resources to hasten the building of livestock feed additive and livestock feed processing industries. Additionally, new protein resources should be actively sought, efforts devoted to research and development, processing technology and equipment improved, scientific research

on livestock feed intensified, and a good job done in coordinating production, supply, and marketing, and in providing technical services for the gradual building of a complete system in the country's livestock feed industry in an effort to raise the country's animal husbandry to a new level by the end of the present century." This showed that grain department work on livestock feeds was going to enter a new historical stage.

## *II. Actively Promoting the Scientific Researches on Feed*

As the livestock feed industry developed, livestock feed science and technology and its results received increasingly serious attention and application everywhere; consequently, scientific research on livestock feed in grain departments also developed very rapidly. By 1984, 23 scientific research organizations, including livestock feed industry technical development centers, livestock feed research institutes (or research groups), and 18 provincial and municipal laboratory centers had been built throughout the country. There were more than 3,000 technical personnel of various kinds in the fields of livestock feed processing, animal nutrition, and analysis and inspection from grain department livestock enterprises throughout the country, including more than 800 engineers, animal husbandry experts, and assistant engineers. Acting under leadership of local grain departments, they did a lot of work and scored many achievements. Statistics show that from 1981 through 1984, they earned 15 ministry achievement awards and 38 provincial and city achievement awards. Technical problems in livestock feed development were also included among national scientific and technical projects to be tackled during the Sixth 5-Year Plan period, grain departments taking responsibility for 14 of them. After 1978, many technical exchanges on livestock feed processing, animal nutrition, livestock feed additives, and use of animal byproducts were conducted with the United States, Japan, the FRG, Italy, France, and Switzerland. In addition, 180 short courses in livestock feed were run that trained more than 6,700 enrollees. The Wuxi Light Industry Academy and the Wuhan Grain Academy also ran special classes on livestock feeds.

In the manufacture of livestock feed processing machinery and equipment, the country was able to design and manufacture 2.5 ton, 5 ton, and 10 ton per hour complete plant processing equipment and various types of feed processing units, which were substantially able to meet China's needs in the building of large, medium, and small blended livestock feed plants. From 1981 through 1984, 14,939 feed machines were produced to supply the needs of the feed processing industry. Not only were blended livestock feeds provided that were suited to the livestock raising environment and the availability of raw materials for livestock feed in various areas, and the different growing periods for hogs and chickens studied, but livestock feeds were developed for ducks, fish, rabbits, dairy cows, and beef cattle as well.



Organization of society's scientific and technical forces to build lateral relationships for the development of cooperative research was a good means of conducting research on livestock feeds. Feed companies in 13 provinces, autonomous regions, and municipalities under direct central government jurisdiction set up advisory groups, feed science societies, and coordination units, forces in society being relied on to do scientific research. During 1983 and 1984, a large amount of work was done in surveying and developing resources, as well as on livestock and poultry nutrition, and feed formulas. More than 40 scientific research achievements were cooperatively made. In order to meet the needs of livestock feed work and strive to catch up with and approach advanced world levels, livestock feed units in all jurisdictions continued to do research work along the following main lines: First was the digestion and absorption of advanced foreign techniques as a basis for research on production facilities including pelletizing machines, bagging machines, liquid additives, and pre-mixed livestock feeds to raise the level of serialization, standardization, and interchangeability. In addition, research was done on electronic computer techniques for the gradual automatic control of important livestock feed production processes including formulation, calculations, weighing, and mixing. Second was study of scientific and economical livestock feed formulas with a view to lowering costs and raising livestock feed utilization rates to get the greatest output for the least investment. Study of feed for fish, shrimp, cattle, experimental animals, show animals, and animals having economic value was done as required to fill in blank spots in available varieties. Third, a general survey of resources formed the basis for diligent study of ways and means of using them.

## **Section II—The Policies and Tasks of the Feed Industry**

### *I. The Role of the Feed Industry in the National Economic Development*

Although the livestock feed industry did not develop in China until recently, it has already preliminarily demonstrated that it holds an important position and play and important role in the overall national economy.

The feed industry helps propel the development of agriculture. China is a large country with 1 billion population and only 1.5 mu of cultivated land per capita. Sole reliance on farming to achieve the magnificent goal of quadrupling the gross output value of industry and agriculture by the end of the present century is out of the question. The breeding industry and economic diversification must be developed. Since farming is limited by the amount of cultivated land and natural conditions, manifold increases in grain output are not easy, but the processing of grain into blended livestock feed can convert it into mature livestock and poultry (or aquatic) products or foods for a manifold increase in output value. Furthermore, only by developing the breeding industry will it be possible to provide large amounts of capital and organic fertilizer to the farming industry to

give impetus to the sustained and consistent development of agriculture. Clearly, planned development of the livestock feed industry, as necessary and as possible, holds important significance in promoting the development of agricultural production.

The livestock feed industry plays a major role in improving the people's diet and in raising the people's standard of living. The diet of the Chinese people provides each person with 2,660 kilocalories of heat energy and 78 grams of protein per day; however, animal protein accounts for only 6.9 percent of total protein. Good nutrition requires 48 percent animal protein. Insufficient animal protein is the main problem in the Chinese people's diet. The people's diet can be gradually improved only if the livestock feed industry provides more good quality blended feed to the breeding industries to hasten their development in order to provide the people with foods containing abundant nutrition that improve the people's lives and raise the people's health level.

The livestock feed industry can greatly improve the return on livestock feed for a saving of grain. Formulation of nutritionally balanced formulas for the use of grain based on the nutritional needs of various livestock animals and poultry at different stages of their growth and the nutritional value of various kinds of livestock feed, using these formulas to make various kinds of blended feeds for livestock and poultry can greatly increase the return on livestock feed. Comparison of blended livestock feeds with single livestock feeds shows the return rate can be increased by between 20 and 30 percent for the saving of a considerable amount of grain.

The livestock feed industry will be able to promote rational use of livestock feed resources, and complete development of the livestock feed resources industry. Not only are grain, bran, and chaff needed to make blended livestock feeds, but bean cake residues, fish meal, meat and bone meal, and such protein raw materials are needed, as well as raw materials for mineral, vitamin, antibiotic, and growth stimulating hormone additives. Development of the livestock feed industry will spur complete development of the livestock feed resources industry.

In summary, the livestock feed industry can advance modernization of the livestock breeding industry, and modernization of the livestock breeding industry can greatly increase the output value of agriculture to provide the people with abundant food and improve the people's lives. This is an inexorable road in the modernization of agriculture that numerous economically developed countries have verified.

### *II. Policies and Tasks of Grain Departments in Feed Work*

Since livestock feed work is a new task, policies and tasks pertaining to livestock feed are constantly being shaped through constant practice.

1. In May 1982, the Ministry of Commerce called for the following in doing livestock feed work: "Proceed from realities, adapting general methods to specific circumstances for the development of broad livestock feed resources, actively developing production of blended and mixed livestock feeds, and doing a good job of supply in order to serve the development of animal husbandry production." The enunciation of this policy proceeded from China's circumstances. Its main spirit was that: 1) The amount of grain per capita in China is less than 800 jin, only slightly more than 10 percent of which can be used for livestock feed, the amount varying greatly from place to place. Therefore, development of the livestock feed industry must proceed from local realities on the basis of available livestock feed resources and the livestock raising situation, suiting general methods to specific circumstances without practicing arbitrary uniformity. 2) Since livestock raising techniques in China are at fairly low level, and since livestock raising is rather decentralized, both high quality blended livestock feeds suited to the needs of state-owned, collective, and specialized household intensive livestock raising, and mixed livestock feeds suited to the scattered raising of livestock are needed. As the livestock speed industry and the livestock raising industry develop steadily, the percentage of nutritionally complete blended feeds will become greater and greater. 3) Not only do livestock feed enterprises have to do a good job of production, but they must do a good job of supply as well. Thus, livestock feed enterprises will have to specialize in linking production, supply, and marketing into an integrated whole. 4) Livestock feed enterprises must serve development of livestock industry production. This is the fundamental goal of livestock feed enterprises production and operations.

In December 1984, when the State Council Office Forwarded the State Economic Commission's "National Livestock Feed Industry Development Program for 1984-2000 (Trial Draft)," it noted that, "Inasmuch as the country's livestock feed resources are scattered, the level of intensivity low, and since livestock raising is done mostly in farflung rural villages, the building of China's livestock feed industry must follow its own road of development." "In the building of production and operations, full use must be made of the enthusiasm of all levels, all jurisdictions, and all departments; funds must be amassed through many channels; many different methods used to run factories, many different economic components running them. Plants may be run by the state, collectives, and individuals, or by partnerships, with gradual development toward specialization and modernization." This was a correct policy more in keeping with China's circumstances that was based on a summarization of experiences in developing the livestock feed industry throughout the country over a period of several years.

2. In May 1982, when it posed requirements in doing feed work, the Ministry of Commerce also cited the following as the main tasks of grain departments in doing livestock feed work:

1) Active opening up of sources of livestock feed in accordance with national policies to make full use of raw materials for livestock feed, including state-supplied livestock feed grain, bran and chaff, oil, and oil cake residues. Livestock feed resources are the material foundation for the livestock feed industry. Of all livestock feed resources, grain and its byproducts (bran and chaff) are the main components of energy feeds, comprising approximately 80 percent of blended livestock feeds. Full and rational use of grain, bran, and chaff is the key in allocating livestock feed raw materials. As reform of the rural economic system has triumphantly developed and national grain output has increased year by year, the percentage of grain used in livestock feeds had also increased with each passing year, and sources of other animal and vegetable protein livestock feed resources have also steadily expanded. Grain departments should conduct surveys to find out the kinds and amounts of available livestock feed resources and the feasibility of using them. They should develop the use of usable resources in a planned way on the basis of needs, making all kinds of oil cake and oil residues a part of local livestock feed development plants, and do good job of administering and distributing bran and chaff byproducts of grain.

2) Organize the balance of surpluses and shortages of certain livestock feed resources. China's livestock feed resources are unequally distributed. For example, southern paddy producing areas lack corn, which is the principal raw material used in blended livestock feeds, while northern grain producing areas, particularly the northeast, have surpluses of corn and soybeans that have to be shipped out. Grain departments must organize an evening out of surpluses and shortages among areas. The national and local governments should organize the importation of animal proteins in short supply in China such as fish meal, as well as amino acids, vitamins, and antibiotics, distributing them to all jurisdictions.

3) Development of the livestock feed industry to promote blended and mixed livestock feeds. When grain departments develop the livestock feed industry, the emphasis should be on livestock feed processing industries for the production of mostly blended, and mixed feeds, pre-mixed feeds, and enriched feeds. At the same time, the livestock feed machinery industry should be actively developed, livestock feed resources industries also being developed as circumstances permit.

4) Development of scientific research on livestock feeds, and spread of scientific techniques for the use of livestock feeds. Efforts to develop scientific research on livestock feed, and to do a good job of developing techniques so that scientific techniques better serve livestock feed production is a major task in livestock feed work. Scientific and technical work on livestock feed consists primarily of the following: a) Research on livestock and poultry nutrition, and on livestock feed formulas for the purpose of providing scientific nutrition formulas for livestock feed production, followed by the

supply of livestock feeds of higher efficacy to the livestock raising industry to advance development of the livestock industry. b) Development of the use of livestock feed resources to provide more raw materials for livestock feed production in order to augment the material foundation of the livestock equipment to provide more scientific processing, inspection, storage and transportation, and scientific control over livestock feed production for the modernization of the livestock feed industry.

5) Specialized operations, improved economic accounting, and a good job of administration and management. The key to improving economic returns lies in improving the quality of enterprises, doing a good job of administration and management, and insuring product quality. Livestock feed enterprises are economic entities engaged in the economic activities of livestock feed production and management. Livestock feed enterprises should do a good job of building leadership teams, intensifying ideological and political work, instituting democratic administration and professional management, improving economic accounting, establishing and perfecting personal position responsibility systems, constantly adopting new techniques and new technologies, increasing the number of varieties, improving quality, reducing consumption, lowering costs, striving to increase labor productivity rates, and improving economic returns to enable enterprises to develop steadily.

6) Working with agricultural and animal husbandry units to provide professional and technical guidance to the livestock feed industry in townships and towns, vigorously supporting households specializing in the raising of livestock to develop production. In a new situation in which all levels, all jurisdictions, and all departments are collecting funds through multiple channels, operating factories in many different ways, with many different economic components being involved, not only should grain department livestock feed enterprises do a good job in the building of their own industries, in scientific research, production, and operations, but they should also cooperate with other systems and other departments to provide professional guidance and services to township and town livestock feed enterprises and households specializing in livestock feed. They should also provide enthusiastic nurture and support to development of the livestock and poultry raising industries and to the aquatic products breeding industry.

### *III. Principles for Building Plants in the Feed Industry*

As a result of several years of effort, the broad masses of cadres, staff members and workers in grain departments have accumulated some experiences in the building of plants in the livestock feed industry, the most important of which are as follows:

1. A combination of large- and medium-sized, small plants, medium, and small ones predominating. China is a vast land with a large population in which livestock feed resources, and livestock and poultry raising are

extremely dispersed, and in which there is a very great difference from one region to another in economic and technical conditions, as well as in natural and geographic conditions. In the development of livestock feed industries, all jurisdictions paid attention to the suiting of general methods to their specific circumstances, to unified planning, and to a rational pattern of plant distribution. Plant size had to be in keeping with local livestock feed resources, the scale of livestock raising, livestock raising methods, and economic and technical conditions, with no arbitrary uniformity. Generally speaking, a combination of large, medium and small plants were built, medium and small ones predominating. Every effort was made to locate plants close to raw materials producing areas and in centers where customers were located, materials being obtained locally, processed locally, and sold locally. In the suburbs of large and medium size cities and in heavy livestock and poultry producing areas where livestock raw materials and livestock raising industries were fairly concentrated, and all conditions fairly good, some technically advanced large and medium size feed mills were built so as to be able to insure product quality and increase labor productivity rates. In ordinary small cities and county seats, mostly medium size and small livestock feed mills were built in keeping with the fairly scattered supplies of raw materials and the fairly small scale of livestock raising in these places. This shortened raw materials and finished product shipping distances for a lowering of production costs. In the farflung rural villages where raw materials were scattered among individual households and where fairly ample manpower resources were available, the peasants were largely relied upon to build small processing plants, developing township and town enterprises themselves or in partnership.

2. New construction and renovation, expansion and technical transformation proceeded in tandem. By 1984, grain departments nationwide built more than 2,000 feed mills, a very great accomplishment. However, because this work had only just begun and was limited by shortages of skills, materials, and funds, most facilities were fairly rudimentary, technology fairly backward, and many mills could not be fully equipped. Practice demonstrated that with a little investment in transformation or expansion, enterprises having requisite conditions could increase output and increase both quality and economic returns. In Beijing, 22 livestock feed processing sites undertook technical transformation, increasing output capacity from the former 100,000 tons to 160,000 tons for a very great increase in economic returns as well. The main goals of technical transformation were improvement of product quality, increase in the number of varieties produced, expansion in production capacity, improvement in labor conditions, and upgrading technology, enabling most plants to add the production of pre-mixed livestock feed to create a full line of livestock feeds at different prices. Those having the conditions sought to add production of pellet livestock feeds. In technical transformation, the point of departure and the point of return had to be increase in

economic returns, making good feasibility studies, and verifying plans from many angles in order to be able to propose complete design and construction plans.

3. Steady development of the pre-mixed livestock feed industry. The production of pre-mixed feeds requires fairly high technology, rather concentrated amounts of raw materials, lesser amounts of product, and no limitations resulting from local conditions and transportation. Therefore, provinces, autonomous regions, and municipalities under direct central government jurisdiction have to plan in a unified way, concentrating the building of plants. There can be no "small but all-embracing," or duplicatory plant construction. In addition, in building plants to produce pre-mixed feeds, not only do long-range needs have to be taken into consideration, but short-term needs have to be taken into consideration even more. Generally plants should be built only after markets have been opened. Places in which plants have been built should do a good job of opening markets at the same time. Places that have not built plants should run small scale trial production first, planning to build a plant only after sales have reached a certain figure.

4. Implementation of a policy of "importing from abroad and cooperating with units in the interior." In order to hasten the modernization of livestock feed work, self-reliance should form the foundation for active use of various means to make use of both domestic and foreign capital for the importation of advanced technical equipment. Digestion and absorption of foreign technology, and blazing new trails should be done to improve the technical and managerial level of the livestock feed industry in order to narrow the gap between China and advanced countries.

In importing foreign technology and equipment, attention must be paid to economic returns. Various kinds of preparatory work must be done in accordance with set requirements. Of particular importance is the preparation of feasibility studies instead of taking rash action. All imports of technology and equipment, as well as all projects that foreign funds are used to construct, must be based on the principle of equality and mutual benefit, and be beneficial to the country and to livestock feed enterprises. The emphasis in importation should be on the techniques and the key equipment that cannot be provided domestically in order to fill in gaps in the country's livestock feed industry. In addition, it is necessary to strengthen coordination among domestic manufacturing departments and among various manufacturing enterprises, to cooperate closely, to make a rational division of labor, to organize specialized cooperative production, to take the lead in coordinating closely with machine industry units, military industry units, and scientific research units, and actively digest and absorb imported technology to improve China's livestock feed machine manufacturing industry with all possible speed. [Footnote: This means industries manufacturing complete equipment for livestock feed processing plants, individual machines of various kinds, and spare parts.]

5. Making the most of the advantages of one's own department to carry out a policy of the development of the livestock feed industry by many departments through many different channels. Grain department development of the livestock feed industry holds definite advantages since these departments have many years experience in processing grain, and technical forces. They also have purchase and sales network outlet points in cities and throughout the countryside, can provide a substantial number of warehouses and transportation forces, and have substantial amounts of grain and grain and oil byproducts, etc. Therefore, grain departments in all jurisdictions are to make the development of blended feeds, pre-mixed feeds, and enriched feeds one of the key tasks of their department. In addition, they also have to provide active support to rural townships and towns, and to the development of individual livestock feed processing industries, giving guidance on techniques, formulas, and market information to rural capabilities to convert grain into feed themselves.

Practice has demonstrated the above principles to be substantially in keeping with China's circumstances. The reason for the rapid development of the livestock feed industry, and the definite accomplishments it made from 1979 through 1984 were attributable to having followed the above principles. Because of the lack of experience and the lack of technical forces, some shortcomings still exist such as a rather low level of production technology, and not high product quality, etc.

### Section III—Livestock Feed Management and Administration

#### *I. Policies for Feed Management*

1. Livestock feed supply policies. There are two kinds of grain department sales of livestock feed. One kind is parity price sales. This consists mostly of the supply of livestock feed to certain livestock raising units and households specializing in livestock raising according to state plans and provisions. However, livestock and poultry products from livestock raising units also have to be sold to state-owned food units at a price somewhat lower than the market price. The other kind of livestock feed sales is negotiated price sales. This price for livestock feeds tracks the market. There are no quota restrictions; supplies may be sold without limitation. With the steady reform of the economic system after 1983, the amount of parity price sales of blended and mixed feeds steadily declined, and negotiated price sales steadily expanded. In 1983, negotiated price sales accounted for 30 percent of all livestock feed sales, the percentage rising further in 1984. In Henan, Hunan and Guangxi, the percentage of sales at negotiated prices was larger by comparison with other parts of the country. Livestock feed sales at negotiated prices rationalized prices, reduced state subsidies, provided livestock raising units with needed feed, and helped development of both the livestock feed industry and the livestock raising industry.

2. Livestock feed price policies. The formulation of livestock feed prices has to follow the objective requirements of the laws of value, help the development of livestock feed production and production by the livestock and poultry raising industry and the aquatic products breeding industry, help improve the people's standard of living, help increase state accumulations, and take concurrent account of the interests of the country, enterprises, and customers.

The summary of the All-China Livestock Feed Work Conference of April 1982 spelled out livestock feed pricing principles as arriving at prices on the basis of quality, making a reasonable profit through normal production and improvement of administration and management. In forwarding the "National Livestock Feed Industry Development Program for 1984-2000 (Trial Draft)" from the State Economic Commission in December 1984, the State Council Office also provided explicitly that prices of livestock feed raw materials and products should be reached on the basis of quality, premium prices paid for premium quality. Livestock feed industry enterprises were to set product sale prices on the basis of costs plus a reasonable profit, thereby looking after the interests of the state, enterprises, and customers.

Accounting for livestock feed prices was to be done by livestock feed enterprises, the formulation of livestock feed price accounting methods and the examination and approval of prices being the responsibility of departments responsible for work and material departments. Livestock feed enterprises were to arrive at livestock feed prices by using price accounting methods, reporting them to departments responsible for the work and materials departments for examination and approval, or for the purpose of putting them on record.

3. Implementation of preferential policies. In ratifying and forwarding the "Report on Vigorous Development of Business-operated Industries" from the State Economic Commission, the Ministry of Commerce, and the Ministry of Finance in August 1984, the State Council instituted preferential policies for business-operated industries in order to achieve faster improvement and development. When forwarding "National Livestock Feed Industry Development Program for 1984 - 2000 (Trial Draft)", the State Council Office proposed a further liberalization of policies toward livestock feed industries, providing them special treatment in terms of funds, taxes, raw and processed materials and personnel training, and technical services. Acting on the basis of the principles underlying this policy, the state provided livestock feed enterprises fiscal and financial support for the purpose of stirring enterprises' enthusiasm for production to promote development of the livestock feed industry. 1) The state cut in half the income tax paid by livestock feed processing enterprises. For newly operated livestock feed industries, it provided a 3 year exemption from income taxes. At the end of the tax exemption period, those enterprises still having difficulty paying taxes could pay a reduced tax for a set period of time

following approval in accordance with regulations. Industrial and commercial taxes and customs duties were to be reduced to waived for necessary imports of raw materials and equipment. 2) Except for the payment of income taxes in accordance with regulations, small state-owned and collectively owned livestock feed industries need not pay additional contracting fees. 3) Livestock feed companies at all levels could collect some of the profits retained after payment of livestock feed enterprise taxes for use in helping key technical transformation projects. All of the remainder was to belong to the enterprise. Enterprises could use a certain percentage to set up a production development fund, a new product trial manufacture fund, and a reserve fund, and they could use them in conjunction with depreciation funds in centrally planned ways. 4) During the period of trial sales, new livestock feed products requiring active promotion might be appropriately subsidized by the state. 5) In order to advance technical progress and hasten technical transformation of the livestock feed industry, the Chinese Industrial and Commercial Bank, and the Chinese Bank of Agriculture could provide needed loans to some livestock feed industries, extending preference to them with regard to amounts and repayment periods, these loans to be used for the development of new techniques, new equipment, and new technology.

## *II. Strengthening, Improving the Operation and Management*

As the livestock feed industry developed, livestock feed administration and management also advanced and improved steadily. After 1981, some of the better methods and experiences were preliminarily summarized.

1. Institution of guidance-style plans, issuing them to grain departments in all provinces, autonomous regions, and municipalities under direct central government jurisdiction, grain departments in each jurisdiction proposing local production plans on the basis of local realities, breaking them down level by level for issuance to the grassroots. This shaped a plan administration system running from top to bottom to help guide production and administration, and help promote development of the livestock feed industry.

2. Energetic publicity about and promotion of blended and mixed livestock feeds. First was the use of radio broadcasts, newspapers, periodicals, and slide shows to explain the scientific principles underlying the use of blended and mixed livestock feeds, publicizing the benefits to be gained from the feeding of blended and mixed livestock feeds to livestock and poultry. Second was the operation of livestock raising experimental farms for demonstration purposes. Third was support to households specializing in livestock raising, having them use their own experiences as an example. Use of publicity to enable those raising livestock to realize the advantages of using blended and mixed livestock feeds, and accept them for use, changing traditional livestock raising methods.

3. Attention to livestock feed sales enabling customers to buy it easily. Most of China's livestock and poultry raising industry is served by small, scattered feed mills (or sites), which tend to be concentrated rather than spread out. Usually, a single feed mill supplies feed for 40 or 50 kilometers around; thus the transportation and supply of feed is an important factor bearing on how well feed sells. Some workable methods created through practice were as follows: 1) Increase the number of sales network outlet points. In addition to sales from places having a shop in the front and a mill in the rear, retail points should be established in fairly densely populated villages and towns where the demand for feed is large. 2) Deliveries of livestock feed to state-owned and collectively-owned livestock farms and to households specializing in the raising of livestock. 3) Commission sales agents. Full use should be made of the advantage that grain departments possess in having many sites located over a wide area to commission grain stations, granaries, and grain control offices to act as feed sales agents. In addition, active efforts should be made to commission supply and marketing cooperatives, and veterinary stations to act as agents for the sale of feed. Active efforts should also be made to develop households as feed sales agents. Those commissioned to sell feed, should be paid a certain handling fee.

4. Contracting of livestock raising techniques to insure returns for livestock raisers. The livestock raising industry is the foundation of the livestock feed industry. Fostering and helping households specializing in livestock raising, and advancing development of the livestock and poultry raising industries, and the aquatic products breeding industry is an important task in livestock feed work. Many places have accumulated some fine experiences in doing this work. For example, the Hainan County Livestock Feed Company in Jiangsu Province not only instituted technical contracting with livestock raisers to supply livestock feed to them, but also guaranteed livestock feed conversion rates under certain livestock raising conditions. By this was meant that should the livestock conversion rate stipulated in the contract not be met when the livestock raisers fed blended and mixed feeds to their livestock and poultry, the livestock feed company would guarantee to indemnify them for losses. Another example was in Guizhou Province where the Yuping County Livestock Feed Company in partnership with the county science committee, the animal husbandry bureau, and the food company contracted livestock raising with households specializing in raising livestock. The county science committee took the lead, becoming responsible for providing technical guidance for livestock raising; animal husbandry departments were responsible for epidemic prevention and treatment; the food company was responsible for purchasing livestock and for pre-purchase down payments; and the livestock feed company was responsible for providing blended and mixed livestock feeds. Each department had its own responsibilities, and worked together as one in contracting feed, epidemic prevention, purchases, and returns with livestock raising households. They also

contracted to pay for losses from the death of hogs not attributable to proper care from livestock raisers. These ways of doing things resolved the apprehensions of livestock raisers. They provided reliable assurance of benefits from the raising of livestock, which aroused enthusiasm for development of the livestock raising industry. Subsequent to 1983, some places operated partnerships combining livestock feed production and livestock raising. One example was Xiaoshan County in Zhejiang Province, which developed economic diversification whereby the livestock feed company jointly operated chicken farms, duck farms, food factories, and flour mills in cooperation with peasants, township and town enterprises, aquatic products, and food departments. This not only resolved the apprehensions of specialized households, but also increased economic returns for enterprises.

5. Improvement of product quality and strengthening of product quality control. As the livestock raising industry developed, livestock feed quality requirements became higher and higher, and demand for different kinds of livestock feed became greater and greater. In March 1983, the Ministry of Commerce promulgated quality standards and inspection methods for blended livestock feeds that required all jurisdictions to establish strict quality control and quality evaluation systems. In a nutshell, there were five requirements: 1) equipment and technical transformation of all livestock feed mills as appropriate; 2) improvement of livestock feed formulas, increase in the grain content, limits on the amounts of coarse livestock feeds used, prohibition of the use of moldy raw materials, increase in the use of additives including amino acids, vitamins, and trace elements; 3) insure proper formulation, measuring, and mixing in the production process; 4) establish and perfect chemical testing organizations and a quality monitoring system, improve packaging, register trademarks, establish product labeling, and make sure that products not meeting specifications do not leave the plant; 5) carry out self inspections, mutual inspections, province, autonomous region and centrally controlled municipal roving inspections; and launch campaigns for the evaluation of premium quality products to promote great improvement in the quality of livestock feed products.

Livestock feed work is a new kind of work under new conditions. Grain departments in all jurisdictions should use diligent summarization of experiences as a basis for the active contribution of forces to the work that is currently continuing to be established in order to produce more premium quality livestock feed, promote the development of both the livestock raising industry and the breeding industry, and improve the people's standard of living.

#### Footnotes

1. By blended livestock feeds is meant livestock feed made from the pre-mixing in certain proportions of individual livestock feeds and additives that meet national livestock feed quality standards.

### Problems in Law Enforcement

40050591 Hong Kong LIAOWANG OVERSEAS  
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[Article by Lo K'ang-hsiung 5012 1660 7160 and Wei Yun-hsiang 7614 6663 0078: "Existing Problems in China's Law Enforcement"]

[Excerpts] [Passage omitted] Not complying with laws and not strictly enforcing laws—this is a "rupture zone" spanning legislation and law enforcement. There now exists almost universally a situation in which laws are not complied with and are not strictly enforced. If this situation is not reversed, the sanctity and authority of law will be seriously damaged.

This is not said just to worry people. Last year the Standing Committee of the Zhejiang Provincial People's Congress made a large-scale inspection of the enforcement of laws and regulations that have been promulgated over the past several years and found that only 30 percent were enforced fairly well, 50 percent and 20 percent, respectively, were generally enforced or fairly poorly enforced. The assessment of the situation by People's Congress Standing Committees in other provinces and cities were roughly the same.

Information from the news media also gives cause for worry: the Forest Law was the first law promulgated by China in the past 10 years, but the trend toward indiscriminate felling that damages forest resources has not weakened; nearly 200 million cubic meters of trees are felled without permits every year.

Survey data from a relevant department show that 82 percent of China's rivers and lakes are polluted to differing degrees, and every year water pollution causes an economic loss of more than 30 billion yuan.

In 1987 the Land Control Law went into effect, but in that year the land area was still reduced by 12 million mu.

### Shock Waves Coming From All Directions

For an unbroken thousand years China had a feudal society. The force of deep-rooted traditional habits and traditional concepts still rotates at high speed with intrinsic inertia, often producing fierce collisions with the law.

One of the obstructions comes from the leading cadres who hold power. The situation in which words are substituted for law and in which power is substituted for law is still extremely serious, and the trial of strength between rule by man and rule by law is not yet over. In September of last year, the People's Congress Standing Committee of a certain city passed a local ordinance protecting the city's greenery. Who would have thought that on the next day a deputy mayor in charge of commerce would issue orders to open up a commercial network spot in the greenbelt surrounding a famous scenic spot. "If laws are strictly enforced, the economy

will be restricted; if laws are flexibly enforced, the economy will be invigorated." This is another specious formulation made by certain leading cadres. Dongyuan City, Guangdong Province, wanted to set up a technical exploitation area, and with a stroke of the pen the city's leaders enclosed an area of 2,200 mu for it. According to the relevant provisions of the Land Control Law, the authority to do this resides with the State Council. Truly, this is a case of "one land law does not withstand one pen."

The second obstacle stems from the traditional concept of the common people, which gives rise to the awkward situation of "the law not being responsible to the masses." "Those who break the criminal law either have their heads chopped off or are put in jail." This idea remains as a deep track in the common people's cerebral cortex. But they often take exception to such laws as the Fishery Law, Forest Law, and Compulsory Education Law, regarding them as "soft laws" and "wall laws." Striking their chests, some people say: "We have lived here for generations. The mountains are ours, the mines are ours. Who says they are the state's?" Feeling perplexed, some people contend: "We are the ones who raise our children. Is it any of your business whether they go to school?" In some areas of Fujian Province, 90 percent of the young people who get married do not register their marriage. They think: "The husband and the wife are the ones who set off the firecrackers. It doesn't matter whether the marriage is registered or not."

The third obstacle stems from the great allure of money. The ideological trend in society of "looking for money in everything" causes some people to disregard the law and make reckless moves. "If you want to get rich, then dig up graves and overnight you will become a 10,000-yuan household." The great allure of money leads to the robbing of graves and the smuggling of cultural relics, which at this time is not completely banned, and people who rely on robbing graves to become rich are not rare.

Over the past several years, because of the "sliding wave" of spiritual civilization, the dregs of society's ugly phenomena—prostitution, gambling, abducting and selling women and children, practicing bigamy, and taking a mistress—have risen to the surface. On the one hand, these cases are investigated and handled according to law; on the other hand, they constantly grow in number, to the biggest and widest extent, and it is very difficult to effectively stop them.

The fourth obstacle is that the economic foundation is fairly fragile. At present the markets in China's commodity economy are developing in an unhealthy fashion. In them there exist shortages of funds, insufficiencies of raw materials, inflation, and other unstable factors. The fragile economic foundation often shakes the position of the law, which is the superstructure, and it is difficult to deal with matters according to law. Hu Yongfang [5170 3057 9443], a member of the Shanghai Municipal CPPCC, said at a recent municipal CPPCC session: "At the end of last year, the Shanghai Electric Power Plant



had got only 5.71 million tons of coal, which was 84.7 percent of the plan. The formal agreement signed between the purchaser and seller was a contract with the force of law, but it didn't have the slightest binding power." Some basic-level unit leaders blindly pursue economic development. Township and town enterprises blossom everywhere, following which new problems in land control, water and soil conservation, and mineral resources exploitation are produced. Some old enterprises that cause serious pollution, for reason of funds, land, and other reasons, find it unfeasible to move. It is difficult for them to control the pollution, and they can only maintain the status quo. Developing the economy and observing the law have become a hard knot to unravel.

#### **Friction and Collision Between Law and Policy, Between Law and Law**

Policy, red-banner document, memorandum, and "gist"—this is China's "local speciality" in the process of changing from "rule by man" to "rule by law." In the present stage of a fragile legal foundation, it still plays a guiding role that cannot be ignored. Especially during reform and opening up to the outside world, the short-term actions of policies have seriously affected the protracted nature, stability, and authority of law.

In 1985 the CPC Central Committee proposed that most of the original state-owned forests and collective forests be contracted out to individuals, and proposed that timber-circulating regions be invigorated and that prices be set free. The common people mistakenly think that transferring forest rights to individuals could mean felling trees at will, as well as the appearance of a trend toward felling trees. Feng Genshang [7458 2704 3932], director of the No 2 Pharmaceutical House in Kangzhou City, said that the Enterprise Law stipulates that all units and individuals must lay their cards on the table for the enterprise to see; recently a certain provincial department wanted this pharmaceutical house to come up with nine exhibition signs at a total cost of 40,000 yuan. He declined to do this time and again, but finally forked over 8,000 yuan to get the matter over with.

Some new state policies and rules are not linked to the original laws and regulations. When contradictions occur the law is at the mercy of policy. A relevant department of Guangdong Province reported that the products on which the state issues import and export licenses, and on which it controls quotas, constantly change and increase, often making it difficult to fulfill the terms of the originally approved contract. For example, the Zhongnan Clothing and Leather Goods Limited Company in Zhongshan City had an original contract that stipulated the annual export of 480,000 dozen pairs of workers' protective gloves. After the license was issued, it was permitted to export only 140,000 dozen pairs per year, and the foreign businessmen poured out endless grievances.

With China's legislation just getting started, it is difficult to avoid parts of it being unscientific and not strict, and

also posing obstacles to the enforcement of laws and regulations. Between some laws there exist phenomena of disharmony, disjointedness, and even contradiction; some legal provisions punish lawbreakers and criminals too lightly, and thus do not play an effective disciplinary role. In some places losses and gains in gambling amount to several tens of thousands of yuan, but the gambler is sentenced at most to 3 years' imprisonment or less. The elasticity of some laws is too great. For example, there are only 156 civil law provisions in China, and, because they are both too sketchy and too sweeping, there are often different judgments on the same legal case. Qi Naikuan [7871 0035 1401], director of the Shanghai Law Institute, said that with regard to some laws "the right to freely consider and decide is too great. Under the present circumstances in which the social atmosphere is unhealthy, law enforcement personnel may flexibly handle cases as they please, a practice that easily causes side effects."

#### **The Unsuitability of the Law Enforcement Contingent and System**

In recent years the development of China's law enforcement contingent has been fairly fast. Even so, it has not caught up with the requirements for completing law enforcement tasks. The imperfection of organizations, the insufficiency of personnel, and the shortages in the economy cause difficulties in law enforcement work. Following the promulgation and putting into effect of law after law, all types of disputes and legal cases have cropped up one after another, causing law enforcement departments to be overburdened with work. For example, the Law on Administration of Pharmaceuticals has been in effect for more than 2 years, but only a small number of prefectures, cities, and counties have set up pharmaceutical administration and inspection organizations. There are only 240 pharmaceutical inspectors in the province, but more than 20,000 units (excluding individual physicians and individual pharmacists) that produce, sell, and use pharmaceuticals; on average each inspector must inspect 86 units. Fuding County, Fujian Province, has a sea area of several hundreds of thousands of mu, but only two fishing administrators, who said, "Even if we went without sleep 24 hours a day, we couldn't administer it."

Administration and enforcement of law have not yet been constituted into an integrated, scientific system. The majority of the mechanisms for law administration and enforcement still operate under the old administrative system. The law enforcement department system does not operate smoothly, and it does not have a relatively independent nature. Law administration and enforcement depend on this system, in which there are mutual friction and mutual collisions, and it is bound to be restricted by all sorts of inappropriate factors. A forestry department is both a law enforcement organization administering forest resources and a production unit processing timber. The public security organization of a forestry department has a certain deterrent effect on indiscriminate tree felling of a mass nature, but it seems

to be extremely weak and powerless with regard to overplan cutting in state-owned forestry centers within a forestry department. The law enforcement personnel in the public security organization and the administration of a forestry department exercise with great difficulty their powers of office in investigating the legal responsibilities of the center's leaders.

Unclearness about a government department's responsibilities remains a stubborn disease in the current form of government. This form of government, in which administration and enterprise are not separated and in which functions are confused, has, through legislation, infected law administration and enforcement, thereby causing disorderly overlapping, friction, and collisions. In this situation there is a lack of organized coordination by the authoritative mechanisms of law. At the same time, the adjusted relationship of economic or administrative laws is fairly complex and crisscrossed. For example, the Fishing Law, Water Law, Environmental Protection Law, and Forest Law all have mutual, intrinsic connections. One law is often the business of several administrative and law enforcement organizations, so that at times several organizations will contend to administer one matter, and at other times none of them will administer it.

In addition, leadership departments in some localities are afraid to take responsibility for investigating and punishing and adopt the practice of not reporting, not investigating, or making big cases small and transforming small cases with regard to cases of law breaking. Because the political and legal organizations have limited forces to handle cases, they place particular emphasis on major criminal cases, and with regard to civil disputes and cases of other types put them off if possible and do not accept and hear them. In the course of handling a case, some law enforcement personnel take bribes, practice graft, and pervert the law, seriously violating law and discipline. According to a recent disclosure by Ren Jianxin [0117 1696 2450], president of the Supreme People's Court, last year in China 383 judges and bailiffs were subjected to disciplinary action for violating law and discipline, and another 18 were investigated and punished for criminal responsibility. From this it can be seen that strengthening the building of honest government and improving the quality of law enforcement personnel are an important link in ensuring that laws are implemented.

#### **Variety of Problems in Imposing Fines**

Fines are one means of punishment given by the law to law enforcement departments. In our investigation we reporters came to understand that in the current fine situation there exist four problems that adversely affect the rigor and authority of the law.

First problem: Fines are too light. The fines stipulated by some laws for illegal acts are too light, creating among some people a psychology of luck, namely, "If I commit 10 offenses and get caught once, I'll break even." Some lawless elements in Cangnan County, Zhejiang Province,

printed 80,000 false trademarks, for which they made 4,800 yuan. In accordance with the Detailed Rules and Regulations on Implementation of the Trademark Law, the maximum fine for this offense is only 960 yuan.

Second problem: Those with money do not fear fines, and those without money cannot pay fines. In 1985 the Zhejiang Provincial People's Congress Standing Committee promulgated the Birth Control Rules and Regulations, which stipulated that a couple "must pay a fee for having children over the quota." Some very rich households that have exceeded the birth quotas do not fear or mind fines, thinking that "by paying a fine what was illegal becomes legal." In some economically poor areas, many over-quota households, because of their poverty, have no money to pay fines.

Third problem: Fines are imposed unjustly and indiscriminately, and law enforcement is "multiheaded." Because for some laws "the right to freely judge and set the amount" is too great, and because the quality of law enforcement personnel is fairly poor, during the process of enforcing the law there is a great deal of willfulness, and sometimes a fine is too light and sometimes it is too heavy.

Fourth problem: The problem of substituting fines for imprisonment is quite prominent. In Fujian and other provinces, there are some patrons of brothels who refuse to mend their ways despite repeated admonition. After one of them is tracked down in the morning and fined 5,000 yuan, he pays the fine in the afternoon and tosses out this remark: "It's worthwhile paying money as a fine to avoid several years' imprisonment." Afterward he commits a new offense of the same kind. The Shanghai Maritime Transportation Public Security Bureau last year tracked down more than 4,000 obscene videotapes and other obscene articles. All of the cases were handled by fines totaling 700,000 yuan, and not one person was investigated and punished for criminal responsibility.

#### **Supervision of Law Enforcement Is Only a Matter of Form and Lacks Real Authority**

Legislation and supervision are the duties bestowed upon the People's Congress Standing Committees by the Constitution. At a recent People's Congress session many representatives sharply criticized the slack supervision of law enforcement.

At present the main way that People's Congress Standing Committees at all levels supervise law enforcement is, first, to solicit work reports from "one prefecture and two courts"; second, to enlist People's Congress representatives to make an inspection; and, third, to initiate a large-scale inspection of law enforcement. Some People's Congress representatives say that the method of supervising law enforcement in which only reports are heard, suggestions are made, and appeals issued cannot solve the problem. As for the large-scale inspection, it is of the traditional "movement form" that can achieve results only for a time.

Chen Chi [7115 6688], a representative of the Shanghai Municipal People's Congress and deputy editor in chief of JIEFANG RIBAO, said, "Last year the municipal

People's Congress Standing Committee enlisted People's Congress representatives to make an inspection in order to find out the situation with respect to the implementation of the Rules and Regulations on Protection of Teenagers. They went to the Press and Publications Bureau to find out the situation with respect to banning obscene books and periodicals. The process was very simple. The People's Congress representatives rummaged through several obscene books and periodicals, listened to the bureau director's report, put forward some opinions, and then considered that they had finished with the matter. Was this supervision? Obscene books and periodicals remain on the market."

Moreover, the setup of the functions and internal organizational structure of the People's Congress Standing Committees and the selection of persons to be on these committees do not meet the requirements for supervising law enforcement. Zhong Chunchu [6988 2504 0443], vice chairman of the Law Committee of the Guangzhou City People's Congress, said, "On the Law Committee there are 14 members, who are not full time, one chairman and one vice chairman, and six office workers. The situation in other special committees is roughly the same. With not enough hands, and being able to work only on day-to-day affairs, how can they supervise law enforcement?" [passage omitted]

### Unit Transforms Imported Engineering Machinery

40050682f Beijing JIEFANGJUN BAO in Chinese  
22 Jul 89 p 1

[Report by Bai Gaoqi 4101 7559 1142: "A Certain Unit of the Second Artillery Corps Relies on Its Own Forces To Transform Imported Equipment"]

[Text] Depending on its existing technical forces, a certain unit of the Second Artillery Corps has boldly digested and absorbed technologies from abroad by carrying out technological transformation of nearly 100 pieces of engineering machinery that had already been reported as worthless, thereby infusing new vitality into this batch of "foreign equipment." From the end of last year to the middle of July this year, it saved 430,000 yuan in repair funds.

In recent years this unit has imported a batch of engineering machinery and equipment. Because its construction tasks were arduous, the imported equipment got a lot of use and had a high utilization rate. Many parts gradually aged or became damaged because of accidents and breakdowns. Therefore, the unit organized a scientific and technological key task force composed of teachers working year-round on the first line of national defense construction. First of all, they held a consultation on the degree of damage done to every piece of machinery and on the breakdowns that were difficult to repair, testing and verifying the machines one by one. Then, relying on its own blueprints and data, they boldly digested and absorbed technologies from abroad, concentrated on solving difficult technical problems, and carried out technological transformation of the imported engineering machinery. By dint of hard work, they successfully transformed 42 pieces of engineering machinery used in national defense construction, including vibrating sifters, liquid injectors, and band conveyors, and 132 machines, including rock loaders, so that the good condition rate of the machinery rose from the original 80 percent to 93 percent.

### Improper Use of 'Sales Commissions' Stopped

40050682d Beijing JIEFANGJUN BAO in Chinese  
23 Jul 89 p 1

[Report by Hu Tingning 5170 1654 1380 and Yang Xiuren 2799 4423 0088: "Leaders of a Certain Installation Dadui of the Second Artillery Corps, Unmoved by Money, Turn Over to the State Tens of Thousands of Yuan in Sales Commissions"]

[Text] They only had to nod their heads in agreement and, without any risk, overnight they could have become "10,000-yuan households." This "meat pie" dropped from the sky landed in front of the leaders of a certain installation dadui of the Second Artillery Corps, but they refused it. On 15 July, at an expanded meeting of the main unit party committee, the party committee commended them.

This dadui has the task of constructing a key national defense project. Out of necessity, it had to purchase several million yuan worth of construction materials from the localities. The buyers proposed that for every 10,000 yuan of commodities purchased the orderer be given a "sales commission" at objective value. Very quickly, the first "sales commission"—two Great Wall color television sets and five 220-liter White Cloud refrigerators—was delivered. Some people suggested that these material goods be shared privately on the quiet; others suggested that they be issued to the companies and then "confiscated."

The dadui party committee swiftly decided to take several measures: The goods on which there was a sales commission would be handled openly, in line with prices in nearby markets; the money from the sales must be used for national defense construction; and the sales commission funds must not be used for unhealthy things.

### Chemical Defense Troops Train in Fujian

40050682b Beijing JIEFANGJUN BAO in Chinese  
25 Jul 89 p 2

[Report by Tang Fen 3282 1164: "Chemical Defense Troops in Southern Fujian Train Amid Severe Heat"]

[Text] At a central battalion position in southern Fujian, on 14 July, chemical defense fendui of a certain group army of the Nanjing Military Region began 100 days of training and military competition. In this large-scale troop training session in midsummer, the chemical defense troops will train in six specialties, including nuclear explosion observation. The enlisted men will focus on training in skills and in the ability to adapt to an intensely hot climate, while the officers will focus on training in the methods of teaching and command.

### First Class of Strategic Rocket NCO's Graduates

40050682a Beijing JIEFANGJUN BAO in Chinese  
25 Jul 89 p 2

[Report by Jian Cheng 1692 2052 and Zeng Kui 1073 1145: "PLA Gets First Batch of Strategic Rocket Specialists"]

[Text] The graduation ceremony for the first class of noncommissioned officer [NCO] cadets in the Strategic Rocket Force was solemnly held on 20 July at a certain Second Artillery Corps [the Strategic Rocket Force] training base. This class of NCO specialists, after 2 years of theoretical studies and 1 year of on-the-job fieldwork, qualified by examination. All of them met the standards for graduation and obtained middle-level specialist certificates. Thus, a new force for position management, operational training, and live missile launching has been added to the Strategic Rocket Force.

The equipment of the Strategic Rocket Force is complicated and highly technical. For many years the operators and technicians who had the mission of training and

launching were all cadres. After the force was streamlined and reorganized, the operators and technicians were no longer in the cadre establishment. To adapt to this new situation, the leadership organizations of the Second Artillery Corps decided to conduct classes for noncommissioned officer cadets specializing in strategic rockets. This was something new in the history of the building of the PLA.

### Second Artillery Brigade Excels in S&T Work

40050682g Beijing JIEFANGJUN BAO in Chinese  
27 Jul 89 p 2

[Report by He Hua 0149 5478 and Zhang Jiajun 1728 1367 6511: "A Certain Brigade of the Second Artillery Corps Conducts Scientific Research With Self-Reliance and in 5 Years Obtains 62 Scientific and Technological Results"]

[Text] A certain brigade of the Second Artillery Corps, displaying the spirit of arduous struggle and self-reliance in conducting scientific research, has obtained in 5 years 62 scientific and technological [S&T] achievements. Of them 51 won armed forces scientific and technological progress awards, and five were listed as equipment or were set for listing as equipment; 87 percent of the scientific and technological achievements have been popularized and applied. This scientific and technological progress has caused the good condition rate of this unit's weapons and equipment on extended service to be maintained at 97 percent and higher.

This brigade is equipped with large guided missiles and weapons of a highly technical nature. To improve the performance of the missiles, weapons, and equipment, to resolve training difficulties, and to improve the means of modernized training, in 1984 the brigade studied and formulated a 5-year scientific and technological development plan. They persisted in taking the path of arduous struggle and self-reliance, doing things simply and thriftily, getting on with the job with local methods, and starting with small technical innovations. Some units made living quarters into scientific and technological activity rooms, and some units built simple scientific and technological activity rooms. Some comrades made their living quarters into sites for scientific research. The brigade's repair department was transformed into a site for multifunctional scientific research experiments. To reduce and save expenses, the brigade has put the focus of its tackling of key scientific and technological tasks on transforming and replacing old equipment, so that some old equipment, which was obsolete and on extended service, shone with new vigor. The valves and pressure gauges on platform charge protection units were aging and needed to be replaced; more than 7,000 yuan were used to buy new ones. Several young engineers of the Technical Equipment Department used scraps for innovation and transformation, for which they paid only several dozen yuan, and the resulting performance was very good. The performance of the platform equivalent

device, transformed and developed by Assistant Engineer Wu Jingui [0702 6855 6311], after being certified and used many times, met all technical demands.

In recent years the brigade has used its scientific and technological earnings to raise 150,000 yuan, with which it built a scientific and technological building of more than 600 square meters, bought several thousand instruments and component equipment, and set up a book and reference material room with more than 3,000 books and more than 100 kinds of scientific and technological periodicals.

### Description of Navy's Nuclear Reactor Simulator

40050682e Beijing JIEFANGJUN BAO in Chinese  
28 Jul 89 p 3

[Article by Guo Lifeng 6753 4539 1496 and Shi Changxue 2457 2490 1331: "Riding Nuclear Energy and Galloping Across Coastal Areas and Territorial Seas—Brief Introduction to the Nuclear Reactor Operation and Control Simulation System at the Naval Engineering College"]

[Text] The nuclear reactor simulation system at the Naval Engineering College is a set of power operation and control system units that were built following the submersion of China's first nuclear submarine.

People know that the so-called nuclear submarine's main characteristic is that its motive power is nuclear energy, and the corresponding piece of equipment is an atomic reactor and its power unit, called a nuclear power unit for short. Arriving at the nuclear reactor operation and control laboratory, we first of all wanted to see the majestic "nuclear reactor." However, what the laboratory workers pointed out to us was an assembled computer system. Originally, it was used by experts to teach the operation and the working of a nuclear reactor, and then data was reprogrammed into the electronic computer. In this way, a small computer network can simulate the operation of a nuclear power unit.

If it is said that this nuclear reactor is a fake, then its central system may be said to be the "genuine goods at a fair price," and also that the model and its layout are exactly like those of a nuclear submarine. Walking into the spacious, well-lit central control hall, one sees on the green carpet some consoles lined up in a row. Here are the battle stations of the power unit operation and control personnel, who operate and control the nuclear reactor. The measurement, supervision, and control of the reactor and its power unit are all centralized in this place. The consoles were thickly dotted with instruments and various kinds of buttons and switches. When they were turned on, lights flashed and alarm bells sounded, providing a tense atmosphere.

To satisfy teaching requirements, the simulation unit is fitted with an instructor control system, called "instructor console" for short. It sets up various operational working situations for the students who are being

trained. It checks on, judges, and assesses the operational level of the students and their ability to meet emergencies caused by accidental conditions.

The images are lifelike, safety is good, and it is economical to use—these are the greatest advantages of this simulation system. Operation of a real nuclear power unit requires expenditure of a lot of funds, but the operation of this simulated nuclear power unit requires the payment of a small charge for electricity and for machinery wear and tear. Its superiority is especially reflected in training on accidents in work situations. For the real nuclear power unit, it is absolutely impermissible to set up work situations for training students that are dangerous and even destructive. Only here can the students drill in all of the operational breakdowns that could occur, based on training requirements, and without the need to take any risk. In recent years the Naval Engineering College has not only conducted many experiments in this laboratory, but has also organized and coordinated training in some operations at ports and in nuclear submarines, training one class after another of nuclear power specialized technical talents for the Navy and completing many scientific research topics. Now, the great majority of electromechanical control officers and the relevant specialized technical cadres in China's nuclear submarine force have received their training here.

#### **Sentry Posts on Tibet Plateau Receive Material Benefits**

40050682c Beijing JIEFANGJUN BAO in Chinese  
28 Jul 89 p 2

[Report by Zhang Wuqing 3769 2976 7230 and reporter Wang Hongshan 3769 3163 1472: "Sending More Charcoal Amid Snow to Sentry Posts on the Plateau"]

[Text] "Adding flowers to the brocade"—winning one honor after another in quick succession—without engaging in "face-saving projects" on the side, organizations have "sent more charcoal amid snow" to sentry posts on the windy and snowy plateau. The Chengdu Military Region has gotten a tight grip on its guidance of the distribution of its organizations' funds, and has set aside 22 million yuan to do 30 things for the development of border defense companies in Tibet.

These funds, which the Chengdu Military Region channeled to the plateau's border defense, have been used to improve communications facilities of some border defense posts and some national boundary markers. Permanent trenches have been made for 40 border defense companies, 11 small comprehensive training grounds have been built, and color television sets and radio-cassettes have been bought for a number of border defense companies.

A border defense regiment commander told us, "I had feared that the organizations' operating funds would become their self-insurance or 'face-saving project' funds. We are far from the organizations and cannot go

to them. This year the organizations used less money and the border defense got material benefits. Therefore, we must also put a lot of effort into building border defense well."

#### **Academy Develops Anti-Nerve Toxicant Drugs**

40050682h Beijing GUANGMING RIBAO in Chinese  
5 Aug 89 p 3

[Article by Wu Yali 0702 7161 7787: "Record of Tackling the Key Task of Preventing and Controlling Nerve Chemical Toxicants—Visit to the Chinese Academy of Military Medical Sciences"]

[Text] If you are not careful and inhale several whiffs of this highly toxic gas or this liquid touches your skin—it doesn't take much, only a drop the size of a small grain of rice—you could be in mortal danger: First, you will have difficulty breathing and your limbs will twitch; then you will feel dizzy and fall unconscious, becoming totally oblivious to everything; and within several seconds you will lose your life. This gas or liquid is, among modern chemical weapons, a highly lethal nerve toxicant—a toxicant with an organophosphide compound.

Chemical weapons occupy an important place in modern warfare, because, with circumstances in which one's own side does not bleed, they can cause casualties over a wide area to the enemy, and their cost is relatively cheap. Therefore, some people call chemical weapons the "poor man's atom bombs." Of the three kinds of special weapons (atomic weapons, biological weapons, and chemical weapons), they are the easiest to use.

There are several types of toxicants used in chemical weapons. Besides nerve toxicants there are: Vesicant agents, which can inflict burns on the skin, eyes, and respiratory tract; incapacitating agents, which can block the functions of thought, feeling, and movement, causing a loss of combat effectiveness, but very few deaths; all-body poisoning agents, which quickly damage the cell functions and cause a lack of oxygen in the human body's system; asphyxiating agents, which can cause pulmonary edema and breathing difficulties; and irritant agents, which have a strong irritant effect on the eyes and the mucuous membranes of the upper respiratory tract.

Toxicants were first discharged during World War I. The German Army was the first to use a large amount of chlorine, which poisoned 15,000 British and French troops, killing 5,000 of them. Subsequently, all belligerents made use of about a dozen kinds of irritant agents. During World War II, Japanese imperialism, in its war of aggression against China, and later, the United States, in its war of aggression against Vietnam, used chemical weapons. From the latter stage of World War II up to the present time, some great nations have always gotten a tight grip on the research and development of new chemical weapons, and have come up with some new toxicants, which can not only cause the other side to immediately lose its combat effectiveness, but also can

put troops in danger of death. Among them, nerve toxicants are the most terrible.

As early as the mid-fifties, the Chinese Academy of Military Medical Sciences, which had been established for only a short time, began research on drugs for prevention and for first aid with respect to nerve toxicants. Although highly toxic, nerve toxicants are innocuous in outward appearance, have no color and no smell, and are like plain boiled water. Even if the enemy identifies a nerve toxicant it cannot be perceived. By the time you feel it, more than half of it will have already entered your body and your life will be in imminent danger. Therefore, the demands on the drugs for prevention and for first aid with respect to nerve toxicants are that they work fast, that their antitoxicity be strong, and that they be convenient to use. Meeting these three demands simultaneously is technically very difficult.

Researchers of the Academy of Military Medical Sciences first researched the poisoning mechanism of nerve toxicants. The main effect of organophosphorous poison on the human body is to inhibit choline esterase. After the choline esterase is inhibited, the choline energy nerve's (the most important neural transmission system in the human body) chemically transmitted acetylcholine cannot go through a process of hydrolysis and it accumulates, thereby creating a series of serious functional disorders and causing death. Therefore, reactivating the choline esterase is the fundamental way to treat cases of nerve poisoning. At the same time they saw that, although an anticholine agent would be a temporary solution, it could maintain life only if it guaranteed that a reactivating agent played its role. Therefore, they decided to focus their research on a choline esterase reactivating agent and an anticholine agent.

At that time, research abroad had come up with a reactivating agent that could be actively used. It had a (?“phosphorus-dissolution set” [jie-lin ding 6043 4340 1353]), but its solubility was low, it was not convenient to use, and it did not meet the demands for first aid use under urgent circumstances. Therefore, various countries began searching for a better reactivating agent. After many years of research, the researchers of the Academy of Military Medical Sciences finally discovered that, after replacing the iodine salt in the (?phosphorus-dissolution set) with chlorine salt, the “chlorine-phosphorus set” result so formed led to good results, increasing the solubility and also being of small toxicity and being quickly absorbed. They injected the chlorine-phosphorus set and the anticholine agent into a small dog that had been poisoned with an organic phosphorus toxicant. After only several minutes, the little dog, which had been on the verge of death, stopped twitching and quickly stood up and walked. The scientific researchers rejoiced over their success from the bottom of their hearts. However, they discovered that these two agents had a certain drawback, and they did not wallow in the joy of their victory, but began to tackle the new key technical problem.

First of all, they got a grip on two crucial problems. The first problem was to cause the preventive drug that protects the choline esterase and the first-aid drug that reactivates the choline esterase to enter the central nervous system, because a nerve toxicant easily passes through the blood's and brain's protective screen and “stages an armed rebellion” in the central nervous system. The second problem was to markedly lower the toxic side effect of the anticholine drug. On the battlefield the situation is highly complex. If, because of a judgmental error, a first-aid drug is used mistakenly, and if it has a large side effect, this would be equivalent to causing one's own combat effectiveness to collapse. However, the scientific researchers discovered through several experiments that the drugs with good antitoxin effectiveness had very large side effects, and that drugs with small side effects had poor antitoxin effectiveness. This is a contradiction, and abroad it is thought to be a contradiction that is very difficult to resolve.

Faced with these two contradictions, the researchers of the Academy of Military Medical Sciences, proceeding from the dialectical method, firmly concluded that within a short time the difficulty in completely resolving the two above-mentioned contradictions was too difficult, but to a fairly large degree there was hope that a big step could be taken in this direction. They collected from various places throughout China nearly 10,000 kinds of plants and chemical synthetics, and then sifted and selected them. They then made structural and functional experiments on the drugs they had sifted and selected. After about a dozen years of unremitting effort and constant progress, they finally succeeded in separating and synthesizing China's special series of new toxic nerve poisoning prevention drugs and first-aid drugs, namely, the choline esterase protective agent and the choline esterase reactivating agent, which are able to enter the central nervous system, are highly effective, and have a small side effect, and also the anticholine agent, which has a comprehensive effectiveness and a fairly small side effect. After these drugs were made compatible, their antitoxic effectiveness was markedly improved. Speaking of their characteristic of entering the central nervous system alone, they are far in advance of the international standard. These drugs one after another won state scientific and technological progress awards and state invention awards, and the theoretical research in this aspect won the state's natural sciences award. In 1986, the general project “Medical Protection Against Special Weapons in Wartime” of the Academy of Military Medical Sciences, which included research on the “three protections” (protection against atomic weapons, protection against biological weapons, and protection against chemical weapons) won the state's Special Award for Scientific and Technological Progress, which is China's highest award in the scientific and technological field, and was the only such award won by medical circles since the founding of the PRC.



### Party Members Urged To Follow CPC Guidance

HK2709012789 Beijing JIEFANGJUN BAO in Chinese  
11 Sep 89 p 1

[Staff commentator article: "Communist Party Members Must Pass a Political Test"]

[Text] Now party organizations and party members in the armed forces are profoundly studying and implementing the spirit of the 4th Plenary Session of the 13th CPC Central Committee. They are summing up their experiences and lessons according to their state of mind. Everyone feels deeply that they stood and passed a severe political test in the course of stopping the recent turmoil and putting down the counterrevolutionary rebellion. This feeling is true.

Passing a political test has been rarely mentioned over the last few years. Influenced by bourgeois liberalization, some people think that the present world "is full of love," that "relaxation, tolerance, and generosity" can be seen everywhere, and that class struggle no longer exists. Therefore, the slogan of passing a political test has been considered "leftist" and discarded. This is a naive misunderstanding. Facts are merciless. Although classes have been eliminated in China, there are still class enemies and hostile elements, and class struggle still exists in a certain sphere and sometimes becomes very serious. The counterrevolutionary rebellion in Beijing fully indicates this. The existence of this special form of class struggle determines that all party members should pass a political test.

The present international macroclimate and domestic microclimate require all party members to pass a political test. The problem of party members passing a political test becomes very urgent every time a major change occurs in the international and domestic situations; every time the party's principles, policies, and strategies are adjusted; every time hostile forces become ferocious and the revolutionary forces face a serious challenge; every time divisive activities emerge in the party and ideological confusion crops up outside the party; and every time the party and state encounter serious political and economic difficulties. Therefore, all party members should remain sober under any circumstances and be prepared for a political test.

The crux of passing a political test is to keep abreast of the CPC Central Committee. In other words, it is necessary to trust the correct leadership of the party and to follow the instructions of the CPC Central Committee and the Central Military Commission in all our actions. All party members should, under all circumstances, believe that the cause undertaken by our party is the greatest and most magnificent cause in the world, that the party's program and final target will be realized, and that the party's present policies, principles, and line are correct. Party members should closely link their "small families" to the "big family" of the party and the state, should always concern themselves with the destiny of the party and the state, and should consciously share a common fate with the party and the state. Sharing a common fate is not blind. Our 50-year-long

revolutionary struggle suggests that only the CPC is a political party that really represents the people's interests, that only CPC-led communism can save and develop China, and that no other political forces can accomplish this. Our party has rich experience in struggle, has a thorough understanding of the nature and political tricks of foreign and domestic hostile forces, has a keen insight into international storms, and can explicitly point out the essence of struggle. The great victory of stopping the turmoil and putting down the counterrevolutionary rebellion was achieved under the correct leadership of the CPC Central Committee and the older generation revolutionaries, including Chairman Deng Xiaoping. The CPC Central Committee made a correct judgment on the cause and nature of the turmoil and took a series of correct measures against it. Just imagine, during that complicated struggle, who else could have made such a prompt and accurate judgment and taken such clear-cut and powerful measures as the CPC Central Committee and Chairman Deng Xiaoping? Therefore, the more complicated a struggle is, the more we should trust the correct leadership of the CPC and the more resolutely we should act in unison with the CPC Central Committee.

In keeping abreast of the CPC Central Committee, all party members are required to enhance their consciousness, to be at one with the party, and to consciously follow party leadership and guidance. To do this, it is necessary for party members to study well so that they will acquire a thorough theoretical and ideological understanding. Party members should study the basic theory of Marxism and Mao Zedong Thought, particularly Marxist philosophy, so as to master the Marxist stand, views, and methods of observing problems. They should study the party's history to remember historical experiences and lessons. They should study the party's line, principles, policies, and instructions for the present period. Theoretical study should be combined with our actual state of mind, and we should use correct theory to straighten out our biases and false impressions. One should never think that only he himself has the best understanding of the masses and that only he himself is most concerned with the country and the people, because this will give rise to biases and obstinacy. Viewed from the process and results of the previous struggle, it was the CPC Central Committee and Comrade Deng Xiaoping who showed concern and responsibility for the people and the country.

Of course, this does not mean that the party never makes mistakes. Our party is great and powerful because it can correct its own mistakes. For example, mistakes committed by Wang Ming and during the Cultural Revolution were corrected by our party itself. The recent decision of the Political Bureau on fulfilling seven major tasks fully indicates that our party sincerely accepts the masses' opinions and criticism and is willing to correct its mistakes.

In keeping abreast of the CPC Central Committee, Communist Party members in the armed forces should particularly bear in mind discipline. Iron discipline includes political discipline. The martial law enforcement troops in Beijing put it well: "Keeping abreast of the CPC Central Committee unconditionally is the supreme political discipline of our armed forces." When they were surrounded by

crowds of people who were ignorant of the facts, when rumors were spreading and reactionary leaflets were distributed everywhere, when counterrevolutionary thugs engaged in beating, smashing, looting, burning, and killing, they displayed a selfless and fearless spirit, were not afraid of death, and remained loyal to the party because they took "keeping abreast of the CPC Central Committee" as their "supreme political discipline." The good example of the martial law enforcement troops in the capital city indicates that we should do whatever is requested by the party and should not do anything that is not requested by the party. This is the criterion for keeping abreast of the Central Committee. All party members should take the martial law enforcement troops as a good example, always act in unison with the CPC Central Committee, be able to pass a political test, and be qualified party members.

#### **Government Publishes Pictorial Biographies of Marshals**

*OW2909061689 Beijing XINHUA Domestic Service in Chinese 1458 GMT 23 Sep 89*

[By correspondent Tang Nianzu 0781 1819 4371]

[Text] Beijing, 23 Sep (XINHUA)—While celebrating the 40th anniversary of the founding of the People's

Republic of China, China has also published the pictorial biographies of four marshals. They are Liu Bocheng, Chen Yi, Xu Xiangqian, and Nie Rongzhen.

The CPC Central Committee and the Central Military Commission have approved editing and publishing these pictorial biographies. After the pictorial biography *Marshal Zhu De* was published on the eve of National Day in 1988, pictorial biographies of Peng Dehuai, Ye Jianying, He Long, and Luo Ronghuan also were published. To date, biographies for all nine marshals have been published.

The set of pictorial biographies of marshals, edited by JIEFANGJUN BAO and published by the Changcheng Publishing House, are of very great historical value. Based on historical facts and using a great many pictures and words, the pictorial biography reflects the militant course traversed by each veteran marshal during the various stages of the Chinese revolution, describes the revolutionary deeds and words, and noble character of each veteran proletarian revolutionary and military strategist, and eulogizes the great contributions of each revolutionary of the older generation in founding New China and building a socialist republic of the people.

## SOUTHWEST REGION

### Special Interview With Dalai Lama

40050618 Hong Kong PAI HSING [THE PEOPLE] in Chinese No 196, 16 Jul 89 pp 3-4

[Interview with the Dalai Lama on 5-7 July in Los Angeles by Lu Keng 7120 6972: "The Communist Party of China Proposes Negotiations With the Dalai Lama in Shenzhen; Dalai Lama Urges the CPC To Have Sincerity in Negotiations and Hopes That Tibet Can Establish a Real People-Elected Government"]

#### [Text] The Dalai Lama Hopes That the CPC Is Sincere in Negotiations

The CPC Central Committee made a proposal to the Dalai Lama to hold negotiations in Shenzhen, which is adjacent to Hong Kong, to replace the Dalai Lama's original proposal of holding negotiations in Switzerland. This proposal, which was made in Beijing in January 1989, is likely to be shelved due to the recent bloody incident in Tiananmen Square. From the Dalai Lama's point of view, first of all the CPC has to be sincere in carrying out negotiations to solve problems and break the deadlock. However, as of today, the CPC still lacks such sincerity. This is information I obtained recently, after contacting the Dalai Lama on three consecutive days—5, 6, and 7 July—in Los Angeles.

When I asked him about the issue of Tibet's future, the Dalai Lama, the spiritual and political leader of Tibet who has been in exile for 30 years as of 1989, said that he hopes that the CPC can have the sincerity to hold constructive negotiations with himself or his representatives to ease current tension in Tibet caused by the CPC's enforcement of martial law and military control and to reach a further agreement on respecting Tibetan religious freedom and establishing a democratic political system. The Dalai Lama emphasized that he personally had absolutely no intention of monopolizing the seat of political leader and that he would be very happy to give up the position if the people of Tibet could elect their own political leader through a genuine, democratic election process. He said: "It is very dangerous and unhealthy to entrust the fate of the entire nation to one person." To him personally, religion is above everything. Serving the people and helping the people understand the true meaning of Buddhism in order to promote the people's well-being and world peace is what he wants to achieve by devoting all his energies to it. He "wished to see in his lifetime the establishment of a government that is genuinely elected by the people in Tibet."

When the Dalai Lama talked to me about Tibet, he did not mention the word independence or independent, but he mentioned many times the words democracy and democratic. He said that the CPC once said that everything is negotiable except for independence. So both the five-point proposal, which he brought forth in New York and Washington, and the Strasbourg proposal were centered on autonomy, freedom, and democracy for Tibet.

The Dalai Lama's conversation more or less showed some homesickness. I asked him, "Do you want to go back to Tibet?" He replied: "Of course I do. But this is not a question of homesickness of an individual. It is a question of freedom and the human rights of a nation."

#### The CPC Does Not Like Dalai Lama Visiting Taiwan

When asked about the question of visiting Taiwan, the Dalai Lama frankly admitted that one of the reasons that he temporarily would not visit Taiwan was that the CPC did not like him visiting Taiwan. This showed that he had to consider the CPC's feelings in order to protect the well-being of Tibetans. Of course the fact that he abhorred the Mongolian and Tibetan Commission of the Kuomintang [KMT] government in Taiwan was also a reason why he would not visit Taiwan.

During his meeting with the Great Master Xing Yun [2502 0061], he frankly expressed that he came and was willing to come because he knew for sure, based on many years of friendship with the Great Master Xing Yun, that Xing Yun was an independent religious leader who had nothing to do with the Mongolian and Tibetan Commission of the KMT government and that the Han and Tibetan Cultural Association of which Xing Yun was in charge also had nothing to do with the Mongolian and Tibetan Commission. He also expressed willingness to send representatives to participate in the pray-for-peace activities sponsored by the Han and Tibetan Cultural Association in Taiwan. The Dalai Lama's words and deeds showed that, although he was a political and religious leader in Tibet, he hesitated to engage even in religious contacts with Taiwan in order to avoid political implications with the KMT government. Because of this, he openly stated that he wanted very much to go to Taiwan because he wanted to eat Chinese food and the best Chinese food was in Taiwan and Hong Kong. After saying this, he himself burst into laughter. I got an impression from the Dalai Lama's conversation. That is, in the past Taiwan used political figures and every possible opportunity to win over the Dalai Lama, which not only failed to create the desired effect but resulted in just the opposite.

When responding to questions concerning the incident in Tiananmen Square, he pointed out that "it was a tragedy" and that the CPC's action was cruel and inhuman. He felt very sorry and sad. The CPC is still continuing to search, arrest, and suppress. If this continues, the CPC will destroy itself.

The Dalai Lama sighed with emotion: "People are surprised and moved that the youth and intellectuals on the mainland who had been raised under the education of the communist party had the ability to express their thoughts and feelings through nonviolent means." He stressed: "Nonviolence is what mankind desires, and to seek freedom and democracy is the basic right of mankind. Though temporarily suppressed by violence, final victory will eventually go to nonviolent people."

Someone asked the Dalai Lama, "What would you have suggested to the students if you were in Beijing when the student movement was developing vigorously?" The Dalai Lama replied: "If you ask for my suggestion, I would have encouraged them to stick to nonviolent methods, have faith in democracy, and have the determination and willpower to pursue it. In the past 40 years, the people of Tibet have experienced too many tragedies similar to that of the Tiananmen Incident."

### Dalai Lama and Xing Yun Appreciate One Another

When the Great Master Xing Yun introduced me to the Dalai Lama, he briefly mentioned my experience. The Dalai Lama showed some interest in me. After posing for group pictures, he took my hand and asked me: "Where were you imprisoned?" After listening to my answer, he said in a serious voice: "You have to pay the price for seeking freedom and democracy." I told him I was very happy to meet him and that he was not only a respected religious leader, but also a person of pure heart. He replied that he was also very happy to meet me. During the conversation I mentioned that when I interviewed the Panchen Lama's wife, Madame Li Jie [2621 3381], in Beijing on 23 February 1989, she particularly mentioned that she deeply appreciated the Dalai Lama's sending his older brother, Jiale Dunzhu [0857 2867 7319 3796], to extend condolences. Walking with his head down, the Dalai Lama suddenly raised his head and looked at me from the side, saying: "The Panchen Lama was a great religious leader. His death was a misfortune for Tibet!"

My impression of the Dalai Lama is that he is a Buddha with a human touch. This can be proved by three incidents:

First, when he spoke at the Xilai Temple, a believer asked about his daily practice of Buddhism. He said: "There is nothing special. I wake up between 0400 and 0430 in the morning and start my day after I brush my teeth and wash my face. Sometimes I would go back to sleep." He winked as he said so, causing laughter among the audience. "Usually I practice Buddhism according to the regulations for monks and remind myself that I should have mercy for all living things. Then I will do my morning study according to the rules of Mi Buddhism. Since I abide by the rule of no eating after noon, sometimes I feel hungry." The audience laughed again. "I meditate after breakfast and begin to study Buddhist scriptures at 0900. Then I take care of some business and receive visitors in the evening. Since I am busy the minute I wake up in the morning, I feel tired when the night falls. Sometimes I doze off during the recital of scriptures. (The audience burst into laughter for the third time.) I quickly fall sound asleep after I retire at 2100."

The Dalai Lama's speech was not the least bit pretentious. He gave people the impression of being forthright and sincere. Everyone in the audience was pleased.

Second, the Dalai Lama's association with Xing Yun shows that these two religious leaders appreciate each other. He commended Xing Yun's contribution to Buddhism and pointed out that the building of the Xilai Temple has far-reaching influence on the introduction of Buddhism to the West. He said that he had seen introductory literature and pictures of Foguang Mountain and the Xilai Temple, but after he personally came to the Xilai Temple, he found it much more stately and beautiful which also reflected the painstaking efforts of the Great Master Xing Yun. During a conversation in the lobby, he saw that there was no snack in front of Xing Yun, so he divided the egg tart and suggested that he share it with Xing Yun. During a reception to welcome the Dalai Lama to worship Buddha in the Daxiong Hall of the Xilai Temple, Xing Yun insisted that they place only one cushion in the middle for the Dalai Lama and refused to sit side by side with him. He emphasized that they should respect and give prominence to the Dalai Lama. The Dalai Lama had originally planned to stay 2 hours in the Xilai Temple. As it turned out, he stayed 3 hours and said he would come back.

Third, the Dalai Lama uses mainly English when he talks. He uses Tibetan only as opening remarks for a speech. Occasionally, he would say something in Chinese, like "I am very glad." When Xing Yun mentioned the plan to hold a world conference on Xian and Mi Buddhism, he suggested that they first get consent from Buddhist leaders in Thailand, Burma, and Sri Lanka as well as from "Zhao Puchu [6392 2613 0443], chairman of the Chinese Buddhism Association." After saying this, he wanted to say "old friend" in Chinese, but he could not remember how to say "friend" after saying "old." I interrupted him and asked: "Are you trying to say old friend?" He clapped hands and laughed, while nodding his head and saying: "Old friend! Old friend!"

During my conversation with the Dalai Lama, I had a vague feeling that he had quite a few scruples about the CPC. He tried to avoid provoking the CPC as much as he could. After he made the comment of "tragedy" on the Tiananmen Square incident, he weighed every word as he spoke. Why was he like this? I understand that the main reason was that he eagerly hoped, through negotiations, to reach an agreement on the issue of Tibet that is conducive to the development of Tibet and its people. In other words, he was searching for, in his own words, "a method that brings Tibet the most happiness and the least pain." Although currently the two sides have not yet found a common ground for solving the issue of Tibet, he said he will continue to insist on solving the issue of Tibet through dialogue and peaceful means. What worried him was that, due to internal affairs, the CPC may not have time to attend to this issue now.

### Taiwan's 'Aggressive' Trade Policies

40060743 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese 28 Aug 89 pp 24-25

[Article by Hsiu Chun-ping 0208 2504 5493: "Taiwan Employs 'Substantial Diplomacy' in Its Economic Offensive"]

[Text] Since over a year ago, the authorities on Taiwan have followed the principle of "less talk and more action," and concentrated all energy on carrying out "substantial diplomacy," extending Taiwan's economic feelers quietly to all corners of the world.

With the adoption of a so-called "substantial diplomacy," Taiwan plans to overcome its international isolation, i.e., to penetrate the international community by such means as economic, trade, foreign aid, and cultural activities, in an attempt to establish some kind of de facto contacts and exchanges with countries that have no official relations with Taiwan and with international organizations that do not recognize Taiwan.

A major peculiarity of Taiwan's "substantial diplomacy" is that it uses economic and trade measures as means to open doors for its comprehensive infiltration and for its penetration of the international community at key points. Since the latter half of last year, Taiwan has made a more intensive use of its economic strength to gain entry into the diplomatic field, and has rapidly accelerated economic and trade activities, while maintaining in principle a separation of government presence and business-like operations.

### Breaking the Stalemate in Relations With Socialist Countries

Beginning last year, Taiwan has changed its policy toward socialist countries in very important ways by a rapid shift from strict prohibition to a policy of unrestricted openness, and has made trade with socialist countries an important link in its foreign economic and trade relations. For key target of its efforts, Taiwan has selected Eastern Europe as its breakthrough point for the development of economic relations with socialist countries. As early as November 1980, Taiwan proclaimed freedom to trade with Eastern Europe, but in fact, many restrictions were at that time still in effect, and certain important points concerning the liberalization of the trade were not publicized. Under this policy of nominal but not actual liberalization, it was almost impossible for Taiwan factories and commercial enterprises to develop trade with Eastern Europe, so that Taiwan's trade relations with Eastern Europe could not be developed to any appreciable extent. It was only after the authorities on Taiwan, on 31 March 1988, promulgated "Important Enforcement Regulations Governing Trade With Eastern Europe," lifting restrictions on trade with Eastern Europe, and opening up for direct trade with the seven countries of Yugoslavia, Hungary, Bulgaria, Poland, Czechoslovakia, the Democratic Republic of Germany, and Romania, that economic and trade

exchanges between Taiwan and Eastern Europe could quickly increase. A look at the bilateral trade shows us that it amounted to a total of \$304 million for the period from 1983 to 1987, but that it rose during the single year of 1988 to \$306 million, a figure which exceeded the total of all the 5 preceding years. The repeal by Taiwan of its prohibition of trade with Eastern Europe was also followed by a rapid increase in mutual visits of personnel. Presently, there is a constant stream of large and small groups of businessmen going to Eastern Europe, while trade representatives from Hungary and other East European countries are also continuously visiting Taiwan.

Following its liberalization of trade with Eastern Europe, Taiwan has also made trade overtures to the Soviet Union and Vietnam. Since the latter part of last year, several groups from Taiwan's semiofficial trade organization, the Foreign Trade Association, have gone to Vietnam and the Soviet Union for exploratory visits. According to Taiwan press reports, Taiwan will this year open up direct trade with all socialist countries, with the exception of the Soviet Union, Albania, and the People's Republic of Korea. It is a fact though, that although Taiwan's trade with the Soviet Union remains indirect, interest among Taiwan businessmen in the Soviet Union is increasing daily and not any less than its interest in the Eastern European market; this gradual expansion of Taiwan's trade is a trend that has attracted general attention. It is also worthwhile to note that following economic and trade developments, unofficial contacts between Taiwan and certain socialist countries are gradually increasing. It has been disclosed that during the course of this year, Taiwan will establish trade offices in Hungary, Yugoslavia, and Vietnam.

### Actively Develop a "Foreign Aid Diplomacy"

Recently, Taiwan is using its foreign exchange reserve, which is the second largest in the world, to expand overseas markets by means of granting foreign aid in overseas countries, in the hope of thereby instituting substantial new relations overseas. Particularly for this purpose, Taiwan established last year a so-called "Overseas Economic Cooperation and Development Fund" of as much as \$1 billion. It is said that the said fund has up to now already received about 20 applications for aid, and that two of these proposals have already been approved. Taiwan's ruling powers have publicly indicated at the annual meeting of the Pacific Basin Economic Council, held this year in May, that the said development fund will be used "for cooperation with friendly developing countries." An editorial in the CHUNG YANG JIH PAO of Taiwan pointed out that the target for Taiwan's aid shall be countries of the third world which are under heavy pressure from foreign indebtedness, and that at the time of granting aid, the recipients will be asked to vote for Taiwan, in order to allow it to maintain its membership in international organizations of which Taiwan is already member, so as to consolidate Taiwan's position in these international

organizations. The Brazilian SAN PAOLO NEWS, furthermore, revealed that Taiwan's Deputy Minister of Economics, Hsu Kuo-an [1776 0948 1344], has indicated that restoration of diplomatic relations between Brazil and Taiwan will not be essential precondition for granting loans, but that Brazil has acknowledged that strategically this point could greatly assist matters in this respect.

### Intensify Overseas Investments

Another way of instituting substantial overseas relations by means of economic and trade measures is Taiwan's active encouragement of overseas investments. In the last year, authorities on Taiwan have encouraged private overseas investments with ever-growing eagerness. Contributing factors here are the huge trade surplus, the daily growing pressure from the United States, the surplus capital on the Island itself, and the mounting pressure of currency inflation. However, even more important is the hope of the Taiwan authorities to be able through overseas investments to establish close economic relations with the countries in which these investments are made, and to amplify these relations into substantial diplomatic relations. In order to assist and support enterprises in their overseas investments, the relevant authorities on Taiwan have simplified various procedures for obtaining approval for such investments, and also adopted a series of measures that would provide added inducement or remove obstacles, such as granting short-term loans, insurance, and other measures.

The United States has always been a favored target for Taiwan's overseas investments. Last year, Taiwan's investments in the United States amounted to \$120 million, an increase of 76 percent over the preceding year and constituted 55 percent of Taiwan's total overseas investments. This year, the momentum of Taiwan's investments in the United States is not weakening; in the first 3 months, investments increased 38 percent over the corresponding period of the preceding year. What is particularly noteworthy in Taiwan's overseas investments is the huge increase in investments in Southeast Asia. The proportion of Taiwan's investments in ASEAN countries, compared with Taiwan's total overseas investments, has grown from 16 percent in 1987 to 27 percent in 1988. Among the ASEAN countries, the Philippines are recipient of Taiwan's largest portion of overseas investments, which in 1988 amounted to about \$36 million, over 10 times more than in the preceding year. The next is Thailand, with investments of about \$12 million, which is over 3 times more than in the preceding year. Southeast Asia is a key area for Taiwan's expansion of substantial diplomatic relations. Since the start of this year, Taiwan's economic and trade assault into this area is growing in intensity and is almost gaining daily momentum.

### Widespread Opening Up of Markets

Actively spreading its markets over a large area is also a major component of Taiwan's efforts at substantial

diplomacy. Western Europe is an important target for Taiwan's efforts to spread wide its markets. Following last year's large increase in the volume of Taiwan's trade with Western Europe, and following rapidly increased unofficial bilateral contacts, Taiwan has undertaken further important steps this year. At the end of March, Taiwan adopted a "Program for Intensified Economic and Trade Activities in Europe," the essential points of which are to "investigate and study the unification of the European market, devise appropriate measures to deal with it, encourage imports from Europe, expand bilateral trade, and to effectively promote substantial bilateral economic and trade relations." For this purpose, authorities on Taiwan are making large-scale preparations to dispatch this year "economic delegations to Europe," whose job is to hold "exploratory trade and investment conferences" in the various European countries, and to invite influential government officials, members of parliaments and of civil organizations, as well as members of the public media to visit Taiwan.

It is noteworthy that there has indeed recently been an intensification of substantial relations between Taiwan and several European countries. At the beginning of February this year, the name of the "Franco-Taiwan Cultural, Scientific, and Technological Center" was changed to "French Coordinating Council on Taiwan," Great Britain has started visa operations on Taiwan, and Italy has also indicated that it will establish a commercial agency on Taiwan.

Taiwan's efforts to expand its markets are of course not limited to Europe. Particularly in recent times, Taiwan has made efforts with unprecedented fervor to open up markets in Southeast Asia, Southwest Asia, the Middle East, Africa, and in Central and South America. Recently, relevant Taiwanese departments have appraised and decided on a "Plan for Intensified Economic and Trade Development in Five Newly Industrializing Regions." According to that plan, Taiwan will open up new markets in the Southeast Asian region with intensified investments and technical cooperation, have investments stimulate trade, and to develop imports of agricultural raw materials. In Central and South America, bilateral economic and trade relations will be promoted through purchases of a policy nature, and through technical assistance and bilateral trade, thereby promoting economic and trade relations with the countries involved. In the Middle East, the image of Taiwanese products shall be improved, investments in Saudi Arabia shall be increased, and bilateral trade relations shall be promoted. In Africa, further market surveys shall be undertaken and mutual relations promoted. Intensified contacts shall be established with regional organizations, such as the North African common market. In Eastern Europe, economic and trade data shall be collected, new markets opened, and mutual trade shall be promoted, increasing purchases of machinery and industrial raw materials.

**Energetic Push Into International Economic Organizations**

In recent years, Taiwan's attempts to penetrate international economic organizations have become more conspicuous. A responsible official of Taiwan's Ministry of Finance has publicly declared that Taiwan is firmly resolved to actively participate in international economic organizations, hoping thereby to gain a place in the international community and to develop substantial relations with other countries. Recently, Taiwan sent an official delegation to the annual meeting of the Asian Development Bank, held in Beijing. This fact demonstrates not only that imperceptible influences are changing Taiwan's policy toward the mainland, but also that Taiwan is taking concrete steps to return to international organizations. Presently, Taiwan is actively preparing to join GATT (General Agreement on Tariffs and Trade) and has also indicated that it will be "realistic" and "flexible" in joining

it, while canvassing everywhere for support, and trying to enlist the support of the United States and other Western countries.

The authorities on Taiwan have spared no effort to promote a so-called "substantial diplomacy," and Taiwan has expanded its economic and trade relations on a global scale in order to escape its international isolation. If we look at the results achieved since the institution of its "substantial diplomacy," we see that even though there has been an expansion of Taiwan's economic and trade relations, and also signs of increased contacts with some countries, on the whole, all these efforts by Taiwan's authorities to elevate nongovernment trade intercourse to the level of official relationships, or, even beyond that, to establish certain kinds of substantial political relations, have remained nothing but wishful thinking on the part of Taiwan's present government.



**Factors Affecting DPP Election Prospects**

40050637a Taipei TZULI WANPAO in Chinese  
17 Jul 89 p 2

[Article by Wu Ch'un-ch'eng 0702 2504 2052: "The DPP Will Have Trouble in the Yearend Election"]

[Text] The election at the end of this year is the first time the DPP [Democratic Progressive Party] will face off against the KMT [Kuomintang] as a legal political party and, at the same time, it is also a crucial time for testing the strength of the DPP. But compared to the 1986 election, this year's election environment will be very different; the main variable in environment for the yearend election is the series of liberalizing measures introduced since the end of martial law in 1986. As far as the KMT and the DPP are concerned, the impact of these liberalizing measures will directly affect the yearend campaign.

The more obvious among the measures which will have an impact on the DPP is that the DPP candidates must recognize the structural changes in the environment and make appropriate adjustments in their campaign style to be able to capitalize on the advantages and eliminate the defects. Observers in general feel that there have been the following changes in the issues for the DPP during the yearend election:

—The range of political issues is reduced: Since the lifting of martial law, the KMT has implemented a series of liberalizing measures, such as eliminating prohibition of political parties and restrictions on newspapers and liberalizing visits to relatives on the mainland and, although these measures may whet the appetite of the electorate, demanding more liberalization may not be of the most benefit to the KMT. However, relatively speaking, it is also not a good thing for the DPP because this makes the DPP lose a rather forceful political issue during the yearend election, such as the twin domestic and foreign issues of "retry the Mei Lidao case" and "establish a counter-vailing force" outside the party in 1980, the topics of "self-determination" and establishing systematization in 1983, and the issues of "re-elect the legislature" and "political power from abroad" in 1986. But by the end of this year, these topics of contention will have been partially resolved and the KMT has already taken on the image of "self-reformer." This will take away the DPP's most powerful issues, and there is a range of opinion within the DPP as to whether making "Taiwan independence" a major issue is suited to Taiwan's present circumstances. It will be more difficult for the DPP to recreate a popular, earthshaking issue than it was in 1986.

—The DPP candidates no longer "monopolize" the right to criticize policy: In terms of the 1986 election, except for a minority of KMT candidates who dared to criticize the administrative errors of the party in power, the majority of KMT candidates were still "well-behaved." But, after the lifting of martial law,

resources within the KMT were in disorder, and KMT candidates no longer viewed being "on the ticket" as their sole opportunity, and they not only worked hard to appear on such political stages as debates and were unwilling to let DPP representatives get ahead, but the political issues of the KMT candidates in the yearend general election were also more varied than before.

—The disappearance of the advantages of the minor media: Before the lifting of martial law, the DPP frequently attacked the mass media for being monopolized by the KMT, and the masses' lack of confidence in and dissatisfaction with the mass media (including television, newspapers, and broadcasting) were entirely supported by the information distributed by the "minor media," that is, leaflets, whispers, and political societies. As a result, the minor media became a voice that had the confidence of the public, and the mass media, which was controlled by the KMT, became an ineffective intermediary. However, after the restrictions on newspapers were lifted, many political taboos were freely discussed, even to the point that people's interest in the "inside story" rose from the level of casual interest to suspicion, but after the political acts of the DPP were reported, readers also began to be bored and disinterested and this is a sign the DPP should take note of.

—The number of workers, peasants, fishermen, and transients who stay away from the polls is increasing: Recently, because the second agricultural reform was not successful, and with the large increase in peasant autonomy after the "May 20th" incident, the KMT's heretofore stable rural voter base was severely shaken. In addition, the large voter base which was taken away by the DPP in the worker movement for adjustments of capital and labor and the environmental protection movement gave the DPP one more assurance of success.

In addition, if the DPP members get involved in the Jong-hsing case so that the DPP's past image as a "moral political party" above suspicion is called into question, and the internal struggles of the DPP make people suspect that some members of the political opposition are contending only for power... Changes in the various environments discussed above, changes in the electorate, and even the direction of the KMT will become the special landscape of the yearend election and whoever controls these variables, whatever the old patterns, will win the greater victory.

**Young Mainlanders Procured for Prostitution**

40050637b Hong Kong MING PAO in Chinese  
27 Jul 89 p 9

[Article by He Shan 4421 1472: "Tentacles of Taiwan Pimps Reach to the Other Shore, the Inside Story of Mainland Little Sisters Being Abducted for Prostitution"]

[Text] A "white slavery" case was uncovered in Taipei recently when police rescued nine victimized mainland girls. This is the first white slavery case involving mainland girls that has been broken by the Taiwan police, but local public opinion describes this as exposing only the "tip of the iceberg" of the Taiwan sex business and probably many other mainland girls have been sold into brothels.

The business of flesh peddlers who "buy up" young girls and then sell them to red-light districts for a profit has existed in Taiwan for a long time. Only this time the victims were transformed from junior middle-school girls and girls from mountain areas into "mainland little sisters" and it became social news, creating a furor.

The modus operandi of the flesh peddlers is generally to deploy special people in mountainous or rural areas to "seek out and buy" young girls; the business method generally is based on the principle of "indenture," that is, the flesh peddler makes an agreement with the girl's parents for a period of 1 or 2 years, generally for NT\$200,000 [new Taiwan dollars] for each year of prostitution, and the flesh peddler sells the girl to a brothel for NT\$400,000 per year. After deducting commissions to intermediaries, the flesh peddler can net NT\$150,000 per year for each girl sold.

The current method of selling girls from the mainland is for a broker on the mainland to first lure the girls to take the bait and then to sell them to the Taiwan flesh peddler for NT\$200,000, who then distributes them on a consignment basis to red-light districts to engage in prostitution. Apart from the monthly "salary" of NT\$15,000 given to the mainland girls and the commission to the brothel, after deducting costs, the flesh peddler earns at least NT\$1 million per year for each mainland little sister.

The nine mainland girls rescued recently were tricked by promises of "going to Taiwan for a month's training then returning to a job at a joint Sino-foreign factory in Xiamen" and were smuggled to Taiwan. They were then forced to go to a legal brothel on Hua-hsi Street in Taipei. Fortunately, one of the girls watched for a chance to escape and went to the police for help; then the group was rescued.

Hua-hsi Street is a famous legal red-light district in Taipei. There are about 20 licensed brothels, but there are countless private brothels as well, thus, the local people refer to it as a "dark hell" where the sun doesn't shine. Since the personnel in charge of the local police substation with jurisdiction over this district say they are powerless with regard to the flood of private prostitutes, local public opinion holds that the reason Hua-hsi Street has become a dark hell is the result of a "tacit agreement" between the police and the underworld. In fact, this rescue of nine mainland girls succeeded only because it was carried out by police from outside the district, in conjunction with military police units.

From "mountain flowers" (girls from mountainous regions) and "young teeth" (immature girls) to "mainland little sisters," the territory in which the Taiwan flesh peddlers "search out and buy" is growing daily and is definitely driven by the corrupt social atmosphere; at the same time, the following news was revealed: Flesh peddlers are "joining forces" with smugglers to extend this criminal activity to the other shore—Mainland China. In the words of Taiwan public opinion, this organized crime opened a new page in the history of crime in Taiwan and is a new challenge to Taiwan's public security authorities.

### Taiwan Alienates Itself From Mainland

40050596 Hong Kong MING PAO YUEKAN  
[MINGPAO MONTHLY] in Chinese  
No 283, Jul 89 pp 14-17

[Article by Huang Yumin 7806 3022 3046, Head of the News Department of the Zhuhai Academy of Classical Studies: "Beijing Is Awash in Blood, Hong Kong Is Boiling Over, and What Is Taiwan Doing?"]

[Excerpts] [Passage omitted] While the people's movement on the mainland was boiling up to a feverish pitch, Overseas Chinese communities throughout the world were buzzing with excitement, and intense emotion was overflowing in Hong Kong, the same Taiwan authorities who profess to represent China had only passive, low-key support for the movement and took no concrete action or substantive steps. And prior to the "Beijing Massacre" of 4 June, the people on Taiwan were extraordinarily unconcerned about the cataclysmic changes taking place on the mainland.

Taiwan's distancing of itself from China disappointed many Chinese who had high expectations about the role Taiwan would play.

### Reactions of the Public and the Government of Taiwan

[Passage omitted] 26 April—The Kuomintang [KMT] party Standing Committee discussed the student movement on the mainland. Xiao Changle [5618 2490 2867], head of the mainland work committee, and Zheng Xinxiong [6774 1800 7160], head of the overseas work committee, presented a report in which they concurred with the standing members of the central Standing Committee in feeling that Taiwan should seize the initiative, actively spread the Taiwan experience, and work to further democratize the mainland. The chairman of the board of the nonvoting Central News Agency felt that the units concerned should make comprehensive preparations to achieve Taiwan's 40-year-old goal ahead of schedule.

On the same day, a group of students from Taiwan University launched a "signature campaign in support of the student movement on Mainland China." In their campaign they appealed to the authorities on both Taiwan and the mainland to grant them three points: First, they asked that self-initiative and the right to

independent scholarship be returned to the students, and that the various government and party influences within academia be eliminated. Second, they asked the authorities to immediately abandon the practice of suppressing movements designed to achieve democracy and freedom, to take in the ideas of the masses concerning reform, and to effectuate adjustments in the attitudes of the rulers. Third, they asked that political prisoners who have been jailed because they criticized the government or made appeals for democratic reform be released.

The three-point appeal of the Taiwan University students and the appeal of the mainland student movement to "wipe out official corruption" and "eliminate corruption" are completely unrelated. Actually, the Taiwan University students were using their support of the mainland student movement as a pretext for "repairing" the Kuomintang.

The Kuomintang is afraid of an upsurge of antigovernment student movements in Taiwan. Thus, it doesn't dare openly "encourage" students to take to the streets in support of the mainland student movement.

The time between the middle of April and 20 May saw both the government and the people of Taiwan do nothing aside from shout empty slogans while the mainland student movement began to really heat up and students entered a "critical" stage after a week of fasting.

The Kuomintang failed to make a comprehensive, in-depth assessment of the mainland student movement at this time because it happened to be undergoing transfers of power of its own, what with the 2d Plenary Session of the National Party Congress about to convene, Yu Guohua's resignation, Li Huan's taking over as premier, and Song Chuyu's [1345 2806 3842] rise in the Kuomintang hierarchy.

Actually, it was Li Shengfeng [2621 0524 1496], a local Taiwanese member of the Kuomintang who was made a member of the Judicial Yuan through augmentation who, on 16 May, made an emergency interpellation that was fair and reasonable, demanding that the authorities "break through their silence, immediately take action with regard to the matter, and sternly warn the Chinese Communists that they had better not use violence of any kind that injures the students or else the government of Taiwan will terminate all of the well-intentioned measures that it is currently taking with regard to the mainland."

What would have been the problem with the Taiwan authorities actually aligning themselves with the spirit of humanitarianism and warning the communists not to suppress the students? It wouldn't have been a politically sensitive act, and it would have only expressed the care that a Chinese government has for its own people.

On a related point, if the goals the mainland student movement was striving for could push the communists to make further reforms, and if this was necessary to

ensure that contacts would continue and future reunification would be achieved, then it wasn't necessary for the Taiwan authorities to extend any substantive political or economic support to the mainland student movement or to confer power on any individuals. But, if they had issued a stern statement at this time and temporarily suspended contacts as a warning, they could have been viewed as having taken active measures.

21 May—Martial law was imposed in the Beijing region, and the People's Liberation Army encircled the city with their gunsights trained on the students. Shao Yuming [6730 3768 6900], director general of the Government Information Office, issued a low-key, hollow statement in his capacity as government spokesman, emphasizing that "we pledge to back up our mainland compatriots in their quest for freedom and democracy. We will walk hand in hand with and give our hearts to our mainland compatriots, and simultaneously wage an unrelenting battle for the glorious future of China." Shao Yuming also said, "The reason why the concerned departments of our government waited until today to issue a statement denouncing the communists and their atrocity of dispatching troops to suppress the student quest for freedom and democracy is that we didn't want to provide the communists with an excuse to blame us for behind-the-scenes meddling or encouraging the student movement and thus visit unfortunate consequences upon innumerable students and others."

22 May—Zhao Shaokang [6392 1421 1660], and some 16 other senior, middle-aged, and young legislators issued a joint statement in which they criticized the government for its slow response to the mainland student movement. They pointed out that "only the Chinese of Taiwan have exhibited indifference to this matter, and this reveals the past inconsistency between the words and the acts of the government with regard to its mainland policies." They demanded that "we give serious expression to our protestations by temporarily suspending all of our liberated policies with regard to the mainland and all participation in the various activities held by the mainland until the communists lift martial law and put an end to the bloody suppression of the students by the military."

23 May—A statement about the mainland student movement appeared in the Administrative Yuan's "Mainland Work Committee Report." The report demanded that the Chinese Communists immediately lift martial law and called on those overseas to provide both spiritual and material support.

24 May—Legislators, including Zhao Shaokang and Li Shengfeng, as well as the local assemblymen held a "meeting to support the mainland democratic movement" at the Sun Yat-sen Memorial. Only 5,000 students and members of the public were in attendance.

However, students from more than ten middle schools and high schools successively held signature drives and blood oath drives in support of the mainland student

movement. But, because their self-initiated movement was starting to involve "interschool ties" and was going beyond the schoolyard, teachers and school administrators worried that "outside forces" would get involved and so would not encourage the activity.

The same day, Li Denghui, in his capacity as chairman of the Kuomintang, pointed out in his speech to the central Standing Committee that "whether it be the government or the people, Chinese are of the same flesh and blood and, thus, aside from lending our spiritual support, the concerned units should look into this more closely and adopt effective measures as soon as possible to back up the students and ensure that their blood does not flow in vain and that their fervor is not wasted."

This was yet another perfunctory remark.

However, in a statement to the central Standing Committee, Shen Changhuan [3088 2490 3562], the former secretary for President Chiang Chingkuo, who was always thought to be a conservative, strongly called into question the indifferent and sluggish response that certain concerned parties had shown with regard to the mainland student movement.

31 May—One million young students from throughout Taiwan formed a linkage of hands stretching from Jilong to Gaoxiong, and, "hand in hand, heart to heart," showed their support for the mainland student movement. This was the largest show of support since the student movement exploded a half month earlier. However, it was initiated by the China Youth Corps.

The same day, 35 professors from various universities in Taiwan issued a joint statement entitled "Both Taiwan and the Mainland Working Together To Save China" in which they expressed their respect and concern for the awe-inspiring character and fighting spirit shown by the mainland intellectuals and students in their quest for democracy.

3 June—The Kuomintang convened the 13th Plenary Session of the 2d National Party Congress, and Li Denghui, in his capacity as chairman, again "pledged to back up our mainland compatriots, united as we are in flesh and blood, in their quest for freedom and democracy," and indicated that "no effort will be spared, maximum support will be given, and until the goal is reached, there will be no stopping." Li Denghui also said that "we should have the courage to face up to the fact that at present we are temporarily incapable of exercising governmental power on the mainland."

4 June—Chinese Communist troops start to move into Beijing, Tiananmen Square is awash with blood, patriotic students and citizens are massacred, and the agenda for the second day of the Kuomintang's 2d National Party Congress becomes a discussion of mainland political and military issues.

A seasoned Taiwan newspaper reporter who covered this session revealed that Li Denghui had frequent "secret

deliberations" with Chief of Staff Hao Bocun [6787 2672 2625] during the meeting, and that Li Huan, the newly appointed premier, had a look of extreme suspicion and asked Hao Bocun "what did the chairman say?," whereupon Hao Bocun laughed but did not reply. One Taiwan political analyst says that right now Hao Bocun carries quite an influence with Li Denghui and that he is Li Denghui's military adviser. With the mainland in such a precarious balance, Li can do nothing but listen to Hao Bocun.

On the same day, Li Denghui, in his capacity as president, issued a short statement saying that "these unbridled acts of insanity on the part of the Chinese Communists, although not unanticipated, still have left us with incomparable feelings of grief and shock. I, in my deeply felt mood of grief, represent the Chinese Government and its people in appealing to all people of the world who love freedom and democracy and all nations and persons who stress human rights to provide the Chinese Communists with the strictest censure possible and demand of the Chinese Communists that they immediately call a halt to their bloody massacre and provide the most appropriate care and compensation to those who have been injured."

Li Denghui "anticipated" the "Beijing Massacre" early on and it is not surprising that he "felt powerless." However, by appealing to the nations of the world to demand of the Chinese Communists that they provide the most appropriate care and compensation to those injured and in believing that he could arouse certain anticommunists, he deserves criticism for his efforts in the area of "notifying the Chinese Communists."

In addition, while all the overseas Chinese from all the nations of the world were coming out of China, and while those Hong Kong residents living in Beijing were scrambling for airplanes to get out, on 4 June the premier gave a speech in which he pointed out that, "although Beijing has erupted into a bloody massacre, the government cannot stop our citizens from visiting their relatives on the mainland." Li Huan also said that the itineraries for groups headed to the mainland to visit relatives will not be suspended, and all should proceed as planned.

Also on 4 June, Li Denghui ordered the forces of the three military branches to strengthen their guards and put the whole nation in a state of alert so as to defend against a communist plot to use an attack on Taiwan as a subterfuge to divert international attention.

The unwillingness of the Taiwan authorities to act magnanimously and issue a statement, in the face of a slaughter of mainland compatriots, warning that Taiwan would not rule out taking extraordinary steps "to console the people and punish the wicked" can, of course, be understood by Chinese at home and abroad as a way to avoid creating tension in the Taiwan Strait. However, it is obvious that, by ordering the three branches of the military to go on alert to ensure the security of Taiwan,

Li was currying favor with the people of Taiwan, and naturally, the saying, "with a foothold in Taiwan, train one's sights on the mainland, and keep one's heart in the whole of China" is nothing but a hollow phrase.

The Democratic Progressive Party [DPP] is strongly tied to Taiwan, and often has come under criticism and censure from the Kuomintang. The DPP call for "Taiwan independence" is viewed as a fly in the nation's ointment. However, in seeking to consolidate its ruling power in Taiwan, the Kuomintang attitude of "independent Taiwan" also merits heavy criticism.

5 June—The Kuomintang's 2d National Party Congress concludes, and Li Denghui makes a speech entitled "Whoever Still Believes Communism Can Solve China's Problems Should Wake Up." Li points out that "the path of communism is one that cannot be traveled" and "if there is no way that China's future can be integrated with the Taiwan experience, then all sacrifices will have been in vain and all efforts will be fruitless."

Since the middle of April, the rise of the patriotic student movement for democracy revealed the fascist nature of the Chinese Communist rule and caused Chinese people throughout the world to lose hope in this form of rule. It is for this end that the patriotic students and citizens of the mainland shed their fresh blood! Li Denghui said: "All sacrifices will be futile." Having received this touch of criticism, will those who have died still not regret having done so?

13 June—The Ministry of Foreign Affairs looks into ways to give Republic of China passports to mainland students studying abroad, and the Education Ministry indicates that it is studying ways to give scholarships to students who opposed the communists and renounced their Chinese Communist passports or to students and scholars abroad who participated in anticommunist activities overseas and thus put their lives in danger.

14 June—Cities and counties throughout Taiwan conduct vigils for the compatriots who died on the mainland, all government organs, schools, groups, companies, and businesses lower their flags to half-mast for half the day, and temples and churches all join in ringing their bells and banging their gongs in condolence at 1100.

This was what certain students and citizens proposed right after the massacre of 4 June. At the time of the proposal, Minister of the Interior Xu Shuide [6079 3055 1795] actually went so far as to say that mainland students do not recognize the three principles of the people and the dead students are not heads of state and, thus, it is not suitable to lower the flag for them. Xu Shuide's "views" came under heavy criticism from the public.

On the same day, the central Standing Committee of the KMT convened and Shen Changhuan, the Kuomintang's elder statesman, gave a good scolding to vice premier Shi Qiyang [2456 0796 2254], (Shi concurrently holds the posts of assemblyman for the mainland work report and

the Hong Kong and Macao affairs group), pointing out that "with such earth-shattering changes on the mainland as we have today, it behooves us to renew discussions of our mainland policy in light of the new situation."

### The Reasons for the "Indifference"

Prior to the "Beijing Massacre" on 4 June, both the government and the people of Taiwan were silent and showed indifference to the mainland student movement. Later the government got the people to start pointing fingers and denouncing the communists, but it was only a pretext for official anticommunist propaganda, as well as playing the game of "look how great our government is." What are we to make of this government that claims to represent China and most of these people who claim to be "united by flesh and blood" with their mainland compatriots?

Of course, for those Taiwanese who have the Chinese superiority complex felt deeply grieved, and ultraconservative anticommunists were also dejected. However, we must look further to explain Taiwan's attitude of indifference. In an essay entitled "Taiwan: Your Name Is 'Indifference,'" political analyst Wang Xingqing [3769 2622 1987] of the Taiwan freedom faction (who is also editor in chief of HSIN HSINWEN CHOUKAN [NEW NEWS WEEKLY]) had this to say: "Taiwan now manifests an extreme case of 'each sweeping the snow away from his own doorstep, and not bothering to concern himself with frost on the neighbors' tiles.' In the minds of the people, not only does 'frost on the neighbors' tiles' not exist, but the home next door vanished long ago.... Taiwan's indifference to the student movement on the mainland is actually the natural result of the limitless expansion of this illusion in consciousness—we don't like Mainland China, and furthermore, because its existence is the source of our worries and fear, we long for Mainland China to disappear. As time goes on, events in Mainland China will lose significance for us, and then we will be justified in feeling that the mainland doesn't exist! The problem is that Mainland China does exist and our pretense of believing otherwise is false. In the end, it will be us who are really injured." Wang Xingqing feels that this condition is due to the lack of contacts between Taiwan and the mainland over the decades as well as the fear of communism that the Taiwan Government has instilled in the people.

A commentary in the 23 May edition of CHINA TIMES had a point that is quite appropriate here: "Generally speaking, people on Taiwan have two ways of thinking about the matter. First, there are those who are very concerned and would like to do something. But, because the scope of the unrest on the mainland is too massive, the whole stage is so complex, the events are happening too far away, information is too sketchy, and naturally one's input would be miniscule, one doesn't know how to act or how to help, and moreover one doesn't know what our government thinks about the matter. Thus, aside from being intimately concerned, one can only do a few

sporadic things and make token gestures to show one's feelings. Never will this converge into concrete and large-scale action. The other way of thinking goes like this: One secretly celebrates the fact that he is in a free paradise, thinks of the turbulence on the other side, and maintains an attitude of aloofness. He continues to pursue his material desires and watches out for his self-interest. Not only does he remain untouched by the stirring deeds in battle of his compatriots on the other side, but actually worries about the matter because it could cause him to lose a market or a source of raw materials, and thus affect him 'in the pocketbook.'"

People in Taiwan have money and love money, and moreover, their love does not distinguish between right and wrong. A Hong Kong newspaper published an item on 27 May saying that a shipment of electrical sticks from Taiwan to quell the riot was being prepared for transfer to the mainland when it was held up for inspection by Hong Kong customs. That certain shady Taiwan businessmen would actually stoop to earn this dirty money shames all those people in Taiwan who support the mainland people's movement.

Can it be that the "indifference" of the people of Taiwan is due to their "a dame in commerce does not care about the fate of her country." No wonder some people ask that we quit talking about "the possibility of national humiliation during times of peace and prosperity" because that is the biggest joke of the century.

And what about the officials? Didn't the national government call for "the three people's principles to unite China?" In an article entitled "Chinese People, I'm Ashamed of You, Disappointed in You, and Hurt," the famous writer from Taiwan, Gong Pengcheng [7895 7720 4453], expressed indignation: "We have always claimed to be the only legitimate government that represents China. How should this government address those massacred people living in the territory occupied by the enemy? Should it use the terms 'you' and 'us'? Can it say that our 20 million compatriot soldiers are willing to serve as your back up? Should this government's censure take on the same tone as that of the United States or Japan? Can it say 'our every action should first take into consideration the security of the base from which we will launch our move to restore the mainland'? We are afraid to get involved in a dispute, we want to stay aloof, we hope to stand by and quietly watch the changes, and we remain content with ourselves and our 'Taiwan experience' and seize every opportunity to announce it. This sort of rinky-dink, stingy spiritedness lacks historical vision and the will to be humanitarian. Does it glorify the Chinese Kuomintang in the eyes of posterity?"

Based on my many years of experience observing Taiwan, the same Taiwan authorities who talk glibly about "keeping a foothold on Taiwan, setting one's sights on the mainland, and keeping one's heart in all of China" have their reasons for taking a low-key attitude toward the cataclysmic changes in China.

1. Ever since opposition parties were created in Taiwan, the ruling Kuomintang has had to put on a show of courtesy and politeness with the opposition forces, and give expressions of being democratic. As for supporting the mainland student movement, this didn't actually touch on issues of power, so the Kuomintang could be a bit more "accommodating" to the opposition parties. Although the DPP issued a statement expressing its support for the mainland student movement, it knows that at their roots the Communist Party and the Kuomintang are alike, and thus didn't want to jeopardize itself by making a fuss about a movement that looks similar to its own and thereby incur a similar crackdown. Now, if you talk about Taiwan democratization—that's a different story! Persons from the so-called freedom faction like Sima Wenwu [0674 7456 2429 2976], publisher of HSIN HSINWEN CHOUKAN, who was in Hong Kong the other day giving a speech on the same platform with Liu Binyan [0491 6333 7159], don't forget to use this opportunity to jeer at the Kuomintang. As for "Taiwan independence," the supporters of this are now provided with a pretext for proclaiming that, "with the bloody massacre in China, Taiwan must be independent." Because of considerations of political interest, the opposition in Taiwan doesn't even take a stance of showing concern out of a fundamental sense of humanitarianism. Instead, they persist in using the tragedy of the Beijing massacre to arbitrarily attack the Kuomintang. And the Kuomintang is forced to issue a statement calling for "the assurance of Taiwan's security" to curry favor with the opposition.

2. The "reform and preserve Taiwan" attitude of the current holders of power in Taiwan is abundantly clear. In order to consolidate their power base on Taiwan, they will not lift the "temporary provisions designed to mobilize the people and suppress an attack." Consequently, they will continually shout empty slogans of "counterattack and restore the nation" and "the communist designs on us have been obvious all along" and thus manufacture a fear of communism.

In his later years, Chiang Ching-kuo was determined to pass on political power to the Taiwanese. After all, it would be the inevitable reality to come out of a democratic constitutional government. He hoped that Taiwan could become the trustee for the future of China and that one day China would be restored to its glory with all of China operating under a system marked by democracy, freedom, and prosperity for all. Whether his challenge to himself and his self-examination, and whether he can pick out the best talent or not, he remains admirable in the eyes of the people. However, his successors are shortsighted, with no vision of history. Their eyes are trained only on immediate interests—they want to consolidate their power base and will not hesitate to satisfy the requests of the mass of Taiwanese. Thus, we have their program of "an independent Taiwan." Zhao Shangkang, the Kuomintang legislator appointed in an augmentation of the ranks, recently said at a private meeting: "If old Mr Chiang were alive today, you can bet

he'd be 100 percent behind a counterattack on the mainland. If Chiang Ching-kuo were alive, he'd be 50 percent behind an attack on the mainland. Li Denghui doesn't support an attack one damn bit."

This was a joke, but from it we can see that times change, leaders change, and mainland policy is now vastly different.

Actually, the mainland policy of the national government has undergone substantial changes over the last 40 years.

The newly appointed premier, Li Huan, has recently emphasized on numerous occasions that "we should not make a counterattack with the military" and "our role is not to replace communist rule." This is vastly different from the "fight the communists and oppose the Soviets, restore the nation and build the nation" of Premiers Chen Cheng [7115 6134] and Yu Hongjun [0205 7703 6874] when the Kuomintang had just fled to Taiwan. When Yan Jiagan [0917 1367 3227] was premier, the slogan was "restore the nation, build the nation, we must

win and we must succeed." When Chiang Ching-kuo became premier, the slogan was changed to "build Taiwan and restore the mainland." When Sun Yunxuan [1327 6663 3894] formed his cabinet, he set forth "rebuild and expand and unite the New China," and thus we saw the transition from a military offensive to a political one. When Yu Guohua became premier, there was less enmity between Taiwan and the mainland and contacts had grown. Thus, the new slogan became "the Taiwan experience is the trustee for the future of China." As for Li Huan's greater "realism," it seems he has nearly forgotten his teacher Chiang Ching-kuo's teachings on never forgetting the mainland compatriots and restoring the nation.

3. The election at the end of this year is a key one for the Kuomintang and they can't afford to lose. Just when the main distributions of power were all settled, one has to gear up for an election. Of course, there is not time to pay close attention to cataclysmic change on the mainland. Winning an election is top priority. [passage omitted]



**Poll Shows Rise in Emigration Trend**

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29 Aug 89 p 2

[Special dispatch: "Emigration Trend Among Hong Kong People Rises Sharply; for First Time Less Than Half Would Not Leave"]

[Text] The most recent quarterly poll taken by the Public Opinion Survey Group of the Hong Kong Data Collection Center shows that the trend for Hong Kong people to want to emigrate continues to rise; for the first time, fewer than 50 percent do not expect to emigrate, a drop of 8.6 percent from the figure for the previous quarter, reflecting the fact that, from the beginning of the Chinese student movement in April and on to the 4 June incident and beyond, the Hong Kong people's desire to emigrate has increased swiftly.

At regular intervals this independent specialized market survey organization surveys Hong Kong's popular opinion, and this time it showed mainly the Hong Kong residents' attitude in the near future toward the Basic Law, as well as the trend in their desire to emigrate. The previous poll was issued in May. In the period from 16 to 18 August, this organization conducted its third-quarter poll, interviewing by telephone 504 Hong Kong residents aged 18 to 59. The results of the poll were issued yesterday.

The results of this quarter's survey showed that, compared with the previous quarter, the trend for Hong Kong residents to want to emigrate had increased by 6.9 percent, reaching 43.6 percent, an increase of 19.2 percent compared with that of the same period last year.

The number of those who do not hope to emigrate continues to fall, for the first time becoming lower than

50 percent; compared with the same period in last year, the proportion of those who do not hope to emigrate has fallen nearly 30 percent.

Among the countries to which Hong Kong residents hope to emigrate, Canada still occupies first place, with 28.4 percent hoping to emigrate there; but, compared to the figure for the previous quarter, this was a drop of 4.7 percent. Compared with the figure for the previous quarter, the number of people who hope to emigrate to the United States increased by 4.4 percent, reaching 26.5 percent, and the United States has replaced Australia in second place. For the first time, 5 percent of Hong Kong residents chose Singapore as the country to emigrate to, making it fourth on the list.

The survey also showed that 61.9 percent of the interviewees thought that the Basic Law will be of great importance to the Hong Kong Special Administrative Zone after 1997, only 15.9 percent said it would be unimportant, and 21 percent had no opinion. A total of 52.4 percent of the interviewees thought that a perfected Basic Law would enhance their confidence in the future Hong Kong Special Administrative Zone, but 29.4 percent held the opposite opinion.

Of those interviewees who thought that the Basic Law would enhance confidence, 56 percent said that the Basic Law provides a framework for the future special zone to continue its stability and prosperity. A total of 30.4 percent expressed confidence that China would conscientiously follow the Basic Law and run Hong Kong well.

Of the interviewees who thought that the Basic Law would not enhance confidence, 70 percent expressed no confidence in the Chinese Government, and a third of the people thought that China would not conscientiously follow the Basic Law.